The Indian Central Banking Enquiry Committee

1931

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Evidence of Commercial Banks, Co-operative Banks, Co-operative Societies, Indigenous Bankers, Economists, Individuals, Chambers of Commerce and other Corporate Bodies.

Questionnaire

INDIAN CENTRAL BANKING ENQUIRY COMMITTEE.

QUESTIONNAIRE.

...llowing memorandum is published in order to assist witnesses in ...ation of their evidence. It is not to be regarded as exhaustive; ... necessary that each witness should be able to deal with all the q...

...strial Banks and credit facilities for India's main industries.

... with reference to one or more industries which you have had op... to observe the credit facilities required with special reference to ... capital expenditure or block, and (*b*) current requirements or th... ...pital.

...so how far in your opinion these requirements are met by va... ...s of banks and bankers and how far the present facilities of th... ...ll short of the actual requirements.

...ent methods of financing and different classes of paper or docume... used in industries in connection with production, import and exp... ...some cases it is the buyer who finds the money himself or thr... banker; in other cases it is the seller who finds the money for... ...r through his banker; and in others it is the middleman, me... ...r commission agent who does this. Describe any prevailing trad... ...ness practices relative to these which have come under your obs... and suggest any improvements in the present organisation whi... ...r opinion, will benefit the different classes of producers and merc... the community at large.

...rticulars of the rates of interest which are charged at present on l... advances and also of the different classes of securities which are ... by banks, financial houses and commission agents.

I... ...ny difficulties experienced on account of lack of credit facilities ...ccount of high interest or discount rates or on any other accou... ...uggest remedies therefor.

4. ...ur opinion banks in India have not financed industries, large or sm... ...ly, to what causes do you attribute their reluctance? Do you t... ...cing of industries is possible by banks as they exist at present ... ...heir present methods?

If ... ...ou suggest the establishment of any other machinery?

Are ... favour of trade banks, *i.e.*, banks which specialise in dealing wi... ...l trades?

Do ... ...ur the establishment of an industrial bank in each province?

If ... ...constitution would you suggest for such a bank?

Wh... ...e facilities which in your opinion should be given to such a bank ... Government or any other agency?

Wo... ...suggest any restrictions on the grant of loans by such a bank in ... secure reasonable safety for the bank while providing finance ... ...stries?

II.—Financing of Foreign Trade.

1. Would you state, with reference to any trade that you have had an opportunity to observe, the credit facilities which are required and to what extent banks supplying these facilities fulfil the present requirements?

In your opinion, is there any class of merchants who are unable to secure all the assistance they need either in India or in foreign countries, and if so could you give any reasons for this state of affairs?

What remedies do you suggest?

2. What are the credit instruments in use with regard to foreign trade?

In what conditions is credit available against these documents and in what conditions is clean credit available? What are the rates charged by the banks?

Are there any seasonal fluctuations in these rates?

What are the facilities existing at present in the export trade for discounting export bills?

Are there any restrictions that you have to complain of?

Have you any remarks to make with regard to the exchange rates which are charged for the conversion of rupee into sterling or other foreign currencies, and *vice versa or for* the remittance of funds to and fro?

3. (i) Have you any suggestions to make with regard to—

(*a*) the establishment of bonded warehouses,

(*b*) the present practice of port trust warehousing,

(*c*) the practice by banks of releasing goods on trust receipts, or

(*d*) any other methods in vogue for the convenience and facility of merchants engaged in the import trade?

(ii) Do the interests of the traders and the public suffer in any way through any defects in the present organisation, and have you any suggestions for its improvements?

III.—Regulation of Banking.

1. Are you in favour of audit and examination of bank accounts by examiners?

If so, how should these examiners be appointed and by whom?

What should be the duties of such examiners? What should be their qualifications and how should their cost be met?

2. Are you in favour of any kind of restrictions being imposed on the business of all banks?

For example, should there be any restrictions of the nature imposed on the Imperial Bank of India under Section 8 of the Imperial Bank of India Act?

(*N.B.*—Parts I and II of the schedule referred to in Section 8 of the Act which indicate the business which the Bank may *and* may not transact are printed as an annexure to the questionnaire for ready reference.)

3. In your opinion is it desirable that the use of the word "bank" should be restricted, and if so, what restrictions do you suggest?

Also state whether you suggest any additional provisions for special application to (*a*) a private firm in India doing banking business, (*b*) a branch of a firm, whose head office is located outside India, doing banking business in India, and (*c*) a branch of a company whose head office is located outside India, doing banking business in India?

Through what agency and in what manner would you have these provisions enforced?

4. Are you in favour of defining by legislation or otherwise the sphere of operations of any class of banks, *e.g.*, co-operative banks, exchange banks, etc.?

5. Do you think that foreign banks should not be allowed to do banking business in India unless they received a license? What authority, in your opinion, should have the power to issue, renew and cancel such licenses? What regulations should in your opinion be prescribed for governing the operations of such a foreign bank?

6. A Bank which is a limited liability company registered in India is at present governed by the law of Joint Stock Companies in India.

Do you consider that position satisfactory?

If not, what additional provisions for special application to such banks would you suggest, particularly with reference to (*a*) authorised and subscribed capital, (*b*) capital that should be paid up before business is started, (*c*) provision of reserves, (*d*) proportion of cash balance to time and demand liabilities, (*e*) publication of balance sheets, their form and frequency, etc.?

7. Have you any suggestions to make for the regulation of expeditious liquidation and advance payment to depositors in case of failure of banks? (*Cf.*, the case of the Alliance Bank of Simla.)

8. Would you state the principal causes which in your experience or observation have led to bank failures in India?

What remedies would you suggest to prevent a recurrence of such failures or to secure timely assistance in such cases?

9. It has been suggested that in some actual cases in the past where banks have been in difficulties, some plan for amalgamation or reconstruction instead of liquidation would have been in the public interest. Would you state your views on this suggestion and would you recommend any provision for securing that, before liquidation proceedings are enforced, adequate opportunities should be given for exploring the possibility of arranging a scheme for amalgamation or reconstruction? If your answer is in the affirmative, please make suggestions as to the sort of provision which you have in mind.

10. It is complained that the cost of liquidation is high at present. Have you any suggestion to make regarding this point and for the reduction of such cost?

11. Are you in favour of making any distinction between current accounts and other deposits in the matter of protection of depositors and do you suggest any legislative measures for the purpose?

Do you recommend the creation of a special class of deposits as distinguished from current and fixed deposits under the existing system and the passing of any special legislative measures for the protection of such deposits with a view to encouraging the investment of savings?

12. Have you any suggestions to make in regard to the proposal that is sometimes made that banks which are really stable should be legally protected against unjust attacks on their stability?

If so, please give your views as to who is to determine the cases in which such protection should be extended and in what circumstances, and also the nature of the protection to be granted.

13. What are the various taxes paid by banking companies? Do any of these taxes interfere with the development or amalgamation of banks?

Have you any suggestions for modifying, removing or readjusting these taxes?

Do you recommend any special concessions, etc., in respect of particular classes of banks, *e.g.*, Co-operative Banks? State your reasons.

IV.—Banking Education.

1. What are the existing facilities for banking education in schools, colleges and universities in India?

Is there any co-ordination of effort between such institutions and the banks?

2. Do banks provide any facilities for the training of boys in banking business?

What is the present method of recruitment of staff by the Imperial Bank of India, the Indian Joint Stock Banks, the Exchange Banks and the Co-operative Banks.

3. How far is instruction in banking, theoretical and practical, combined at present?

4. Can you give any information regarding the facilities afforded in other countries in the matter of banking education? Have you any suggestions to make regarding the facilities that should be made available in India?

Have you any suggestions to make in regard to the grant of facilities for higher training outside India to bank probationers and bank assistants in India?

5. Have you any suggestions regarding the constitution of the Indian Institute of Bankers?

6. What is the present position and what, in your opinion, should be the future position of the Indian Institute of Bankers in regard to banking education?

7. What is the training of indigenous bankers at present?

Have you any proposals of a practical nature for the provision of special training for this class?

8. What are the prospects, present and future, of boys trained in banking in India?

Do you attribute the slow development of banking and specially branch banking to absence of trained men in India?

V.—General Banking Organisation and Money Market.

1. Do you find in the present organisation of banks and the money market in different parts of India any defects which are likely to be remedied by—

(a) administrative measures of Government,

(b) legislation, and

(c) co-operation amongst bankers themselves?

2. Have you any suggestions to make regarding greater co-operation between indigenous banks and other banks in India?

3. Have you any suggestions to make with regard to the organisation and functions of Clearing Houses in India?

4. Have you any suggestions to make with regard to the regulation of the bank rate?

5. Can you describe from personal observation any financial panic which arose in any centre in India?

Explain its causes and state if you have any suggestions to make with a view to preventing any unjustified panic?

6. Can you indicate the nature of frauds and malpractices which have been experienced by banks in India and which have from time to time led to stricter regulation and restriction of credit by these banks, thus making *bona fide* constituents suffer?

To what extent have such frauds and malpractices to be attributed to the inadequacy of existing legal provisions and defective nature of business practices? Can you suggest any change which will afford protection to the banks against such malpractices without entailing any hardship on *bona fide* customers?

7. Have you any suggestions to make with regard to banking organisation in India by which—

(a) the cost of management may be reduced,

(b) the rates of interest on advances can be brought down,

(c) greater stability of banks can be assured, and

(d) the cash resources of the various banks can be mobilised to meet any emergency or unexpected situation that may arise?

8. Considering that the dividends of established banks are fairly high, what in your opinion prevents more capital being invested in the expansion of existing banks or the establishment of new banks?

9. Do you support the suggestion that banks in India do not find a sufficiently large number of bills against which they could make advances and that this particular instrument of credit of which the banking systems in other countries make large use is not available in sufficient quantities in India? If so, what are the causes of this and what remedies do you suggest?

10. Have you any suggestions to make regarding the organisation of the Indian money market with reference to settlements on stock and produce exchanges?

11. Can you describe the relationship that now exists in India between the banks and the various classes of brokers, such as finance brokers, hundi brokers and exchange brokers?

12. Have you any information regarding the general agency business done by banks in India for their constituents.

13. How far have banks in India found the maintenance of their own godowns successful in meeting the trade requirements of their constituents?

14. Have you any suggestions to make for augmenting the resources of banks so as to enable them to afford further facilities to commerce, industry and agriculture?

Would you recommend any one or more of the following methods for securing the increase in capital or would you suggest any other method:—

(a) by way of foreign capital, *i.e.*, by direct flotations in other countries or through Foreign Banks; or

(b) by attracting the savings of the community; or

(c) by funds made available by Government, *e.g.*, a proportion of the receipts from Cash Certificates and Savings Bank deposits?

15. To what extent has the Imperial Bank of India been serviceable in the past—

(a) to the main industries of India, such as Cotton, Coal, Jute, Metals, Sugar, Electrical undertakings (including Hydro-Electric projects);

(b) to the movement of crops;

(c) to the exchange banks;

(d) to ordinary banks—indigenous and joint stock;

(e) to the Indian States; and

(f) to the Indian Provincial Governments?

16. To what extent has the Imperial Bank of India been useful in regard to the liquidation of other banks?

17. Have you any views regarding the present position of the Imperial Bank of India and the position it should occupy in the future?

18. What facilities and concessions has the Imperial Bank of India enjoyed from Government, Municipal and other Corporations and Indian States?

Should all these be continued or restricted?

State if in your opinion joint stock banks in India should also be afforded similar facilities and concessions.

ANNEXURE.

SCHEDULE I TO THE IMPERIAL BANK OF INDIA ACT, XLVII OF 1920.

PART I.

Business which the Bank is authorised to carry on and transact.

The Bank is authorised to carry on and transact the several kinds of business hereinafter specified, namely:—

(a) the advancing and lending money, and opening cash-credits upon the security of—

(i) stocks, funds and securities (other than immoveable property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any Act of the Governor General in Council and any securities of a Local Government or the Government of Ceylon;

(ii) such securities issued by State-aided railways as have been notified by the Governor General in Council under section 36 of the Presidency Banks Act, 1876 or may be notified by him under this Act in that behalf;

(iii) debentures or other securities for money issued under the authority of any Act of a legislature established in British India by, or on behalf of, a district board;

(iv) goods which, or the documents of title to which, are deposited with, or assigned to, the Bank as security for such advances, loans or credits;

(v) accepted bills of exchange and promissory notes endorsed by the payees and joint and several promissory notes of two or more persons or firms unconnected with each other in general partnership; and

(vi) fully paid shares and debentures of companies with limited liability, or immoveable property or documents of title relating thereto as collateral security only where the original security is one of those specified in sub-clauses (i) to (iv), and if so authorised by any general or special directions of the Central Board, where the original security is of the kind specified in sub-clause (v):

Provided that such advances and loans may be made, if the Central Board thinks fit, to the Secretary of State for India in Council, without any specific security;

(b) the selling and realisation of the proceeds of sale of any such promissory notes, debentures, stock-receipts, bonds, annuities, stock, shares securities or goods which, or the documents of title to which, have been deposited with, or assigned to, the Bank as security for such advances, loans or credits or which are held by the Bank or over which the Bank is entitled to any lien or charge in respect of any such loan or advance or credit or any debt or claim of the Bank, and which have not been redeemed in due time in accordance with the terms and conditions (if any) of such deposit or assignment;

(*c*) the advancing and lending money to Courts of Wards upon the security of estates in their charge or under their superintendence and the realisation of such advances or loans and any interest due thereon, provided that no such advance or loan shall be made without the previous sanction of the Local Government concerned, and that the period for which any such advance or loan is made shall not exceed six months;

(*d*) the drawing, accepting, discounting, buying and selling of bills of exchange and other negotiable securities payable in India, or in Ceylon; and, subject to the general or special directions of the Governor General in Council, the discounting, buying and selling of bills of exchange, payable outside India, for and from or to such Banks as the Governor General in Council may approve in that behalf;

(*e*) the investing of the funds of the Bank upon any of the securities specified in sub-clauses (i) to (iii) or clause (*a*) and converting the same into money when required, and altering, converting and transposing such investments for or into others of the investments above specified;

(*f*) the making, issuing and circulating of bank-post-bills and letters of credit made payable in India, or in Ceylon, to order or otherwise than to the bearer on demand;

(*g*) the buying and selling of gold and silver whether coined or un-coined;

(*h*) the receiving of deposits and keeping cash accounts on such terms as may be agreed on;

(*i*) the acceptance of the charge of plate, jewels, title-deeds or other valuable goods on such terms as may be agreed on;

(*j*) the selling and realising of all property, whether moveable or immoveable, which may in any way come into the possession of the Bank in satisfaction or part satisfaction of any of its claims;

(*k*) the transacting of pecuniary agency business on commission;

(*l*) the acting as administrator, executor or trustee for the purpose of winding up estates and the acting as agent on commission in the transaction of the following kinds of business, namely:—

(i) the buying, selling, transferring and taking charge of any securities or any shares in any public Company;

(ii) the receiving of the proceeds whether principal, interest or dividends of any securities or shares;

(iii) the remittance of such proceeds at the risk of the principal by public or private bills of exchange, payable either in India or elsewhere;

(*m*) the drawing of bills of exchange and the granting of letters of credit payable out of India, for the use of principals for the purpose of the remittances mentioned in clause (*l*) and also for private constituents for *bona fide* personal needs;

(*n*) the buying, for the purpose of meeting such bills or letters of credit, of bills of exchange payable out of India, at any usance not exceeding six months;

(*o*) the borrowing of money in India for the purposes of the Bank's business, and the giving of security for money so borrowed by pledging assets or otherwise;

(p) the borrowing of money in England for the purposes of the Bank's business upon the security of assets of the Bank, but not otherwise; and

(q) generally, the doing of all such matters and things as may be incidental or subsidiary to the transacting of the various kinds of business hereinbefore specified.

PART II.

Business which the Bank is not authorised to carry out or transact.

The Bank shall not transact any kind of banking business other than those specified in Part I and in particular—

(1) It shall not make any loan or advance—

(a) for a longer period than six months, or

(b) upon the security of stock or shares of the Bank, or

(c) save in the case of the estates specified in clause (c) of Part I, upon mortgage or in any other manner upon the security of any immoveable property, or the documents of title relating thereto.

(2) The Bank shall not [except upon a security of the kind specified in sub-clauses (i) to (iv) of clause (a) of Part I], discount bills for any individual or partnership-firm for an amount exceeding in the whole at any one time such sum as may be prescribed, or lend or advance in any way to any individual or partnership-firm an amount exceeding in the whole at any one time such sum as may be so prescribed.

(3) The Bank shall not discount or buy, or advance and lend, or open cash-credits on the security of any negotiable instrument of any individual or partnership-firm, payable in the town or at the place where it is presented for discount, which does not carry on it the several responsibilities of at least two persons or firms unconnected with each other in general partnership.

(4) The Bank shall not discount or buy, or advance and lend or open cash-credits on the security of any negotiable security having at the date of the proposed transaction a longer period to run than six months or, if drawn after sight, drawn for a longer period than six months:

Provided that nothing in this Part shall be deemed to prevent the Bank from allowing any person who keeps an account with the Bank to overdraw such account, without security, to such extent as may be prescribed.

No. 1.

Statement of evidence submitted by the Allahabad Bank, Limited.

I.—*Industrial Bank and credit facilities for India's main industries (with general application to all questions under this section).*

In the more important centres where representative joint stock banking institutions are established, provided approved security is forthcoming no trader of standing and skilled in making money experiences any difficulty in securing his financial requirements from the banks. It is to this end that the whole of the Bank's organisation is directed. Most forms of industry coming under our view are closely associated with agricultural produce and their requirements are ordinarily restricted to finance for purchase of seasonal stocks when the respective crops come on the market. Block is not considered as approved security. It is not a banking function to provide fixed capital. This is the function of the share-holders or promoters of the concern. Approved security apart from Government bonds, shares, etc., is any form of agricultural produce, *i.e.*, foodgrains, oilseeds, cotton, jute, the last two raw or manufactured. Also standard varieties of Piece Goods. Where there is no joint stock bank, finance is afforded by the private bankers to the limit of their resources. Where these are inadequate resort is made to the commercial centres where money can sometimes be raised on usance bills. Rates of interest charged in the mofussil average not more than 7 per cent. The banks stipulate for provision of margin on the above mentioned securities to the extent of Rs. 25 to 30 per cent. and in most instances for possession of the goods constituting the relative security.

Finance against documents of title representing such stocks is also freely available from railway receipts, which originate the movement of produce to the ports to the export bill, which concludes the operation in this country. Foreign Bills for import of marketable commodities are also taken up by the banks against a marginal payment, the relative stocks being held as security against gradual clearance and final liquidation of the debt. Given approved security, there is keen competition among the banks for any business offering. No necessity exists for the establishment of any other machinery for the financing of trade and industries. Joint stock banks are the best medium for trade development and the restrictions imposed by the necessity of conforming to conservative methods of banking promote a healthy growth which is usually absent from any form of subsidised assistance unless guided by a staff of experts, as in the case of German industrial banks, who as Directors control the concerns they accommodate. Of infinitely greater importance to the development of the country as a whole is the maintenance and extension of joint stock banking enterprise by which the public are habituated to the use of cheques in their business, thus economising currency and providing additional supplies of liquid funds available for the finance of trade and industry.

The functions of an industrial bank postulate a lock up of funds and control of the industries financed. Both operations are inconsistent with traditions of conservative joint stock banking which aim at liquidity of funds and the position of being auxiliary to, and not controllers of, credit.

Industrial banking as a specialised form of business may be successfully introduced into a country where banking generally is in an advanced state of development.

It cannot, however, take the place of joint stock banking from a development point of view and as an extension of general banking facilities is an essential requirement for the future prosperity of the country, such extension should be encouraged along the more educative lines of influence as exercised by joint stock banking institutions.

II.—*Financing of Foreign Trade.*

Q. 1. To take the cotton trade as an example, facilities are required in the first instance by the purchaser in the district who buys direct from the cultivator. He gins and presses the cotton into bales, which is held for better prices at the discretion of the holder and sold ultimately to export firms, or it may be sent to Karachi or Bombay by the purchaser himself if he anticipates a better demand or a more favourable price in those centres than is available in the mofussil. In any case finance can be obtained from the banks, either indigenous or exchange, in the manner described in the first section above, covering the whole operation of original purchase and final disposal by export or otherwise.

In centres where there is no joint stock bank their place is taken by the big shroffee firms whose resources are generally adequate to meet the demands of the community for storage or movement of the local crops. Their utility can be judged by the successful manner in which they compete against joint stock banks in respect of advance business against grain and other agricultural produce in places where the former have been long established.

Q. 2. Credit Instruments in use with regard to foreign trade are bills of exchange, generally drawn at a certain usage after sight, accompanied by shipping documents. Credit is available against these bills with documents of title to the relative consignment, as described in section I, conditional on the goods being of a marketable character and the borrowers of substantial standing. Clean credit is entirely a question of the means and standing of the borrower and no hard and fast rule can be laid down in this connection.

Rates of sterling export bills are based on the prevailing exchange rate and at the London discount rates. There are the ordinary seasonal fluctuations in these rates.

Export bills with accompanying documents covering marketable goods are freely accepted for discount. These bills are generally as a means of facilitating negotiation drawn under bankers' credits opened by the purchasing firm in favour of the supplier.

The import trade is financed by bills negotiated for the most part in London. On arrival of the relative consignments in India advances from the banks can be obtained, as mentioned in Section I, for retiral of the bills and the goods retained in the bank's possession pending sale and adjustment of the advance.

Q. 3. (*c*).

(*d*) The release of import goods under trust receipts is dependent to a large extent on the credit of the borrower. The legal position of banks

under this arrangement, however, requires to be clarified—at present it is somewhat uncertain.

Storing arrangements are in our experience generally adequate.

III.—*Regulation of Banking.*

Q. 1. We commend the audit and examination of bank accounts by examiners and that these examiners should be chartered accountants or accountants certified under the Indian Companies Act. The appointments should rest with the share-holders in general meeting and for the express purpose of submitting to them an accurate straightforward statement of their affairs. The cost thereof to be met by the bank.

A satisfactory arrangement would be the selection of special Chartered Accountants' firms with the highest qualifications obtainable, who would be certified by Government as bank auditors. No firm except so certified to be eligible to undertake a bank audit.

Q. 2. We deprecate any restrictions being placed on the operations of banks.

The operations of the Imperial Bank Act are, we submit, ineffective in practical application. The clauses of the Act are framed to give the widest permissive powers to the Imperial Bank to engage in general banking business and so that nothing in the Act may be construed as restrictive it is specifically laid down that nothing shall be deemed to prevent the Bank from allowing any person who keeps an account with the Bank to overdraw such account without security to such extent as may be prescribed. In point of fact the Imperial Bank is in a position to compete with the indigenous banks in every branch of the latter's business and does so.

Q. 3. We are of opinion that the word 'Bank' should not be permitted unless the Company is registered under the Indian Companies Act and has a fully paid-up capital of at least Rs. 3 lacs. If trading is included in the business of the Company, trading funds must be kept distinct from banking funds. Each department should keep separate books and be subject to separate audit.

The voting power of individual share-holders should be limited to prevent the possibility of control passing into the hands of any one shareholder or group of share-holders.

Q. 4. No.

Q. 5. Provision should be introduced in the case of foreign banks who propose to commence business in India, necessitating their obtaining a license from the Finance Department of the Government of India. Once granted, it should not be withdrawn provided the Company's operations are in conformity with the law. The only authority competent to issue such a license would be the Government of India.

Q. 6. Yes. But the Act should be amended on the lines suggested in our answer to question No. 3.

6. (*d*) This provision has its recommendations and we are prepared to recognise its utility provided the deposit can be made in the form of Indian Government Securities. Not otherwise.

(*e*) Balance Sheets should be published once a year at least and within reasonable time of the closing of the books for working period under review.

Q. 8. Departure from the sound cautious principles of banking. Dividends taking precedence to reserves.

Provisions as above would assist towards the prevention of such happenings.

Q. 9. The interested parties must decide on the most suitable method to meet a situation of the kind indicated.

Q. 11. To distinguish between Current and Fixed Deposits cannot be recommended.

Q. 12. The practice in force in Scotland should be adopted by which suits preferred against Credit Companies are submitted to the Crown Solicitor and proceedings only admitted subject to his consent.

In India the Advocate General could be made the arbitrator in such matters.

Q. 13. Income-tax and Super-tax. These do not interfere with banking development or amalgamation.

IV.—*Banking Education.*

This enquiry will be dealt with fully by the Indian Institute of Bankers.

This Bank since its inception 65 years ago has recognised the value of the Indian officer and nothing could be more eloquent testimony of the wisdom, foresight and value of its policy than by stating that out of 37 Offices 19 are under the charge of Indians, and that one outstanding member rose from a clerkship to a seat on the Board of Directors. The declared policy of this Bank is the encouragement of merit and that the Bank has a sustained interest in the training and progress of each member of its staff. The fullest facilities are given towards this end.

V.—*General Banking Organisation and Money Market.*

Q. 1. No.

Q. 2. No. Present conditions as far as our experience goes are adequate for requirements.

Q. 3. No. Present arrangements are satisfactory.

Q. 4. No.

Q. 6. We have no knowledge of frauds and malpractices experienced by banks in India which have led to a curtailment of credit to other banking constituents. The only effect should be to tighten up internal checking and supervisory methods generally.

Q. 7. (*a*) No. These are matters for internal arrangement.

(*b*) This may be left to competition.

Q. 8. As far as the old established banks are concerned there is no occasion for an increase of capital as their resources are already ample for requirements. The high level of dividends maintained by the majority of banks operating in India is due to the conservative policy adopted of building up substantial reserve funds.

Q. 9. The type of bill to which reference is made, *i.e.*, trade bills drawn at a usance against goods supplied and available both as a means of obtaining finance from the banks and for the investment of funds to a

material extent by the latter is not in extensive use in India. In fact as far as our experience goes genuine trade bills are seldom encountered in business.

The cause must be attributed to the present system of open credits by which the merchants obtain their financial requirements from the banks. No practical remedy for alteration of this position suggests itself. The latter method of finance will always be more popular with the dealers for reasons both of economy and convenience and failing a concerted movement by the banks to enforce the bill habit—a most unlikely contingency—there would appear little probability of its introduction to any extent except possibly in Port Towns where the substitution of trade bills for cash credit facilities may be acceptable to firms engaged in extensive storage operations in jute, cotton, etc.

Q. 10. No.

Q. 12. Agency business apart from ordinary banking services is not as a rule undertaken by banks on behalf of their constituents.

Q. 13. Successful. This only applies to storage of piece goods or goods of a miscellaneous nature. There is ordinarily no question of banks endeavouring to meet storage requirements in the case of seasonal produce.

Q. 14.—The old established banks have ample resources for their requirements, a fact which is clearly illustrated by their heavy investments in Government Securities and Treasury Bills.

Q. 15. (*a*) (*b*) No more serviceable than any other banking institution in the ordinary course of its business.

(*c*) (*d*) As bankers as a result of which they have large balances lying with them free of interest.

(*e*) No information.

Q. 16. It has, we think, only assisted with the liquidation of the Alliance Bank of Simla Limited, as a result of which it established itself at all centres with ready made facilities where the latter had been operating and to which the Imperial Bank had at that time not extended.

Q. 17. The position of the Imperial Bank in the future is dependent on whether or not a central banking authority is established. If a Reserve Bank of India is created, it is presumed on general principles that the Imperial Bank will be deprived of the majority of the concessions it at present enjoys and there should be no question of their then obtaining special facilities from Government in their capacity as Agents to the Reserve Bank and as provided for in the second schedule of the Reserve Bank of India Bill.

The Imperial Bank, when freed from any restriction which may be imposed on its business by the provisions of the Imperial Bank Act, will operate in open competition with both exchange and indigenous banks and the grant of special facilities of the nature previously contemplated by the Reserve Bank Bill would act unfairly against the remaining banks in India, particularly the indigenous institutions whose working has already been adversely affected as a result of the subsidised competition of the Imperial Bank. If, however, the existing agreement between Government and the Imperial Bank is extended for a further term of years, the relative Act should be amended to reduce to some extent the handicap to which

other banks are at present subjected in competition with the Imperial Bank. There are, for instance, certain qualifications in the Act which render the restrictions imposed nugatory in practical application. We refer particularly to the general permission accorded for sanction of unsecured business on individual or joint personal liability in connection with which the Act allows the acceptance of any form of approved security, as dealt in by other banks, as collateral against such advances and which leaves the Imperial Bank free to indulge in any description of banking business.

The Imperial Bank should also be prevented in future from extending its branch system to centres where an adequate banking service is already provided. The fact does not need to be stated that it is easier to build up a business by attracting customers away from an established bank by the offer of lower rates than by pioneer banking in an entirely undeveloped district and the risk of such intrusions, of which we have had experience, must act as a deterrent against a policy of branch development on the part of the indigenous banks.

Q. 18. The Imperial Bank of India is given the facility of free transfer of funds and a monopoly as Government bankers of receiving the whole of the Government balances free of interest, military and regimental accounts, trust estates, municipalities, railways, Ports, Universities, schools, security deposits and various semi-public funds. Also payments for services in connection with the management of the Public Debt Offices. In addition to these direct benefits there is the enormous value of the Government connection in the enhancement of the Bank's credit whereby it can borrow at lower rates than other banks.

It is admitted that the general tendency of the Imperial Bank's operations has been to reduce to a lower level the rates both for loans and remittances. As these results have been achieved not by lowering the rates at which private banks can secure their banking funds but by bringing in the competition of a State aided Bank in receipt of the facilities as above described, we submit the rates are neither reasonable nor economic. It has never been suggested that the indigenous banks were making excessive profits prior to the institution of the Imperial Bank, nor presumably was it the intention or the policy of Government to bring about the lowering of profits of other banks. The profits earned by banks in their ordinary business must be such as to provide a return sufficient to attract capital to the business of banking besides allowing for provision of reserves to protect that capital in order to ensure sound banks and a high degree of banking credit. This result is becoming increasingly difficult owing on the one hand to the enhanced borrowing terms of Government which influences the deposit rates of the indigenous banks and on the other to the reduced rates for loans due to the operations of the Imperial Bank. In this connection it would further appear they lower these rates only in competition with other banks, as we understand that in certain towns in Madras where competition does not exist, rates are maintained at not lower than 8 per cent.

The free development of banking and the maintenance of credit postulate conditions making for a prosperous banking system which has the confidence of the public and which, given the resources to undertake a policy of branch extension, can do so much towards the general trade development and prosperity of the country.

Subsidised banking in any form as tending to check the natural growth of private banks is highly undesirable and should be avoided in the interests of the country and in the interests of future banking development on the part of banks other than the Imperial Bank of India.

Finally, the whole consensus of qualified opinion, in which we join, is the early establishment of a Reserve Bank free from political influences and on the most accepted principles of Central Banking, thus enabling the Imperial Bank and all other banks to fulfil their purpose in the free development of banking on economic grounds of healthy competition.

Allahabad Bank, Limited—Reply to the Special Questionnaire of the Indian Central Banking Enquiry Committee.

Question 1.—What has been the effect of the opening of branches by the Imperial Bank on (*a*) deposits of Indian joint stock banks' branches (*b*) their turnover and (*c*) the rates of interest prevailing in such centres.

Reply.—(*a*) and (*b*) Detrimental to the existing banks in the various centres where the Imperial Bank opened branches. Semi-public funds belonging to schools, Universities and the like, trust funds being administered by the Courts, regimental funds and accounts were for the most part transferred to the Imperial Bank, these funds amounting in the aggregate to a considerable sum.

The difference in the Fixed Deposit rates granted by the two institutions—3½ per cent. by the Imperial Bank against 4½ per cent. by ourselves —militated against the volume of ordinary deposit accounts being adversely affected to a material extent. The prestige of the Imperial Bank would, however, attract certain monies at the lower rate ordinarily available to ourselves and there can be no doubt that in small centres where business is not capable of any particular development the majority of the Imperial Bank's deposits would be gained at the expense of the other competing banks.

By rates we presume is meant rates of interest on advances. Previous to the advent of the Imperial Bank, interest rates charged on advances against seasonal produce averaged 8½ per cent. At that time however we were paying 5 per cent. on Fixed Deposits for 12 months, which constitute the bulk of our working capital. Now our Fixed Deposit rate has been reduced to 4½ per cent. and our average loan interest to roughly 7 per cent. the margin of profit diminishing in turn to 2½ per cent. As previously stated, business in the smaller centres is definitely restricted within certain limits and the effect of the Imperial Bank's intrusion into such centres was to divide up existing business with their competitors who were perfectly capable of providing all the financial requirements of the centres in which they were established.

The Imperial Bank were enabled to cut into this business in the initial stages of their operations by reason of lower rates and cheaper hundie facilities. By quoting competitive terms we have been able to check the loss of business and to retain existing connections. The lower rates at present prevailing have not assisted the development of business in the rural districts by which is understood investments against grain. It is probably within the knowledge of the Committee that in most cases storage is undertaken by commission agents on behalf of their various

customers. It is part of the duty of the commission agent to arrange finance from the banks, the customers providing him with the requisite margin. For this service the commission agent charges his customer 10/12 per cent. the difference between this rate and that charged to him by the bank, being clear profit to himself so that the chief if not the only effect of the reduction was to benefit the commission agent, neither the customer nor the cultivator participating.

Q. 2. Mr. Bowie mentioned in his evidence before the Hilton Young Commission instances where the Imperial Bank on opening a branch had quoted definitely unremunerative rates for remittance and purchase of bills. Has this practice continued and if so are there any cases where the joint stock banks' branches are in serious danger of having to close down?

Reply.—The ordinary bank in discounting a demand bill must have a remunerative return on the money from the time of encashment until return of funds to the Office where the encashment took place. From this return must be deducted the cost of remittance through the Imperial Bank at 1/32 per cent. which for the period involved say seven days on a demand bill is equivalent to Rs. 1/10 per cent. per annum and this cost is doubled if the operating Bank has to place the necessary funds with its branches in the first instance. It will be readily understood that the Imperial Bank having no necessity to make this latter charge can quote terms unremunerative to other banks for such business.

This practice presumably still continues and serves as an added attraction to dealing with the Imperial Bank on the part of grain commission agents who finance the movement of grain to the ports and other centres through the medium of demand and usance bills.

Q. 3. Suggestions have been made from time to time that there should be more co-operation between Indian joint stock banks and between them and the Imperial Bank. Has the possibility of starting a Bankers' Association been considered with a view to laying down from time to time certain general principles which, while giving members reasonable freedom in competition, would restrict "cut-throat" competition, and facilitate business generally? What are your views on this subject?

Reply.—There was some informal discussion on the subject of fixing minimum rates in 1926 between this Bank, the Imperial Bank and the Central Bank of India. Unfortunately, nothing eventuated. Such an agreement would be welcomed by ourselves, provided lending rates were fixed on our borrowing costs and not on those to the Imperial Bank.

Q. 4. Complaints are being made that owing to the monopoly of foreign exchange business the exchange banks are able to attract deposits at lower rates than the Indian joint stock banks to the disadvantage of the latter? What has been your experience in this respect? Do you find that your inability (from whatever cause) to take a considerable part in exchange business in any way affects your potential deposits? What would be your views on any proposals to restrict in any way the operations of the exchange banks?

Reply.—The deposit rates offered by exchange banks are generally lower than those of the indigenous banks but this is in our opinion due to their prestige as old established banks and the conservatism of their depositors.

We do not consider the facilities offered by them for foreign exchange business have any bearing on the subject. We are not affected in any case as we are in a position to supply all the exchange requirements of constituents in the mofussil.

Q. 5. It has been stated that the exchange banks by opening branches up-country are becoming serious competitors of the Indian joint stock banks. What are your views on this subject?

Reply.—The establishment of exchange bank branches up-country must undoubtedly affect in some degree the business of the indigenous banks. The former, however, confine themselves to the large industrial centres and concentrate chiefly on import business and advances against goods the relative bills for which are negotiated through their London Offices. They do not operate in the districts or smaller centres, nor do they within our experience compete in storage business in respect of agricultural produce in the mofussil.

Q. 6. Can you suggest any methods by which the position of Indian joint stock banks can be improved and the development of such banks facilitated?

Reply.—Only by the removal of any form of subsidised banking to allow the indigenous banks a fair margin of profit over working expenses by which they will be enabled to build up reserves for the further protection of depositors and be in a position to undertake a policy of branch extension. The latter is an expensive process involving in most cases several years of unprofitable working. and in absence of a prosperous banking system development to any material extent will not take place.

No. 2.

Statement of evidence submitted by the Secretary, the Andhra Bank Limited, Bandar, Machilipatnam.

The Imperial Bank of India is, by its very constitution, precluded from being of any real service to industrial organizers. The rule that it cannot issue loans of longer tenure than 6 months stands in the way of long term accommodation to nascent industries. For instance, the loans allowed to Chithvalasa Jute Mills of the South Indian Industrials led to the bank applying for their liquidation which was granted summarily in the Madras High Court under the Companies Act. Seven days' time was given to the debtors to find 13½ lacs and, when that impossible feat could not be performed, the mills were liquidated, sold and purchased by a European firm of Calcutta.

Likewise, the pressure to return the money advanced to the Carnatic Paper mills led to the Government making an advance of 4 lacs of rupees and Government playing the part of the bankers. The Government pressed for repayment and the mills would have been sent into liquidation or sold out under the Act but for the forming of a subsidiary company to take the place of Government.

The Spinning and Weaving Mills of Bezwada had also received some little help from the Imperial Bank and as soon as its fortunes became low, the mills had to find the money for repaying the bank and other creditors with the result that they had to go into liquidation on June 6, 1929. Then again, the Sugar Mills of Masulipatam were given an advance of Rs. 30,000 by the Imperial Bank and the necessity to repay the money led to their liquidation. The fact is that these industries in their infant condition require to be supported by long term credit—sometimes for working expenses and occasionally for completing the organisation—and the loans taken by them in the pressure of their circumstances have expedited the liquidation on account of the short term credit allowed.

It will thus be seen that there is no chance of any industry developing under the present circumstances unless long term credit is available. Capital for industrial undertakings is impossible to obtain in view of these repeated failures. Commercial banks cannot possibly advance for capital expenditure; borrowings from the Marwaris is too costly; the Government cannot directly lend to various industrial concerns. The only way, therefore, is to have an Industrial Bank which could infuse confidence in the minds of the investing public, which could count upon Government help whenever required and which could exercise efficient control and supervision over the industries it finances. This bank should have strict governmental control so that no particular group of industries or industrialists are favoured and that reasonable care is exercised in underwriting shares or in financing particular companies. Debentures issued by the bank should be given the same importance as those of *quasi*-governmental bodies. The bank should be an all-India institution with a network of branches, as an independent bank in each province will not be able to withstand depression in any particular industry nor be free from local favours and prejudices. Further, the experience gained by an all-India institution will be useful in the management of the branches in various places.

II.—*Financing of Foreign Trade.*

The financing of foreign trade is now entirely in the hands of the exchange banks and this is a disadvantage to the merchants as well as to the joint stock banks. While the bigger merchant manages to get the required financial help from the exchange banks, the smaller one finds it difficult to obtain finance. He is, therefore, obliged to sell his goods not to the foreign importer direct but to the bigger firms in India, thereby foregoing the substantial portion of the profits in the business. The help rendered by banks is not merely the purchasing of shipping documents but also advancing of moneys for the buying and collecting of produce. This help allows the bigger firms to beat out the smaller ones in competition. To afford similar facilities to the latter also, it is necessary to have many more banks doing this kind of business. This is possible only if the Indian joint stock banks are encouraged to deal in foreign exchanges along with the Imperial Bank. The proposed Reserve Bank should have the power to deal in foreign exchanges, if necessary, through the banks engaged in it, though not directly with the merchants themselves. As the Indian joint stock banks are unable to meet the requirements, however small, of the foreign traders, the latter are driven to the exchange banks so that the benefits of the other business of those firms, such as inland trade, deposits, etc. are also lost. Restriction should, therefore, be placed in the way of the exchange banks in competing for deposits and inland trade and in opening out new branches.

At present, when letters of credit are opened, the export bills are discounted, generally by the exchange banks without any difficulty, though in some cases, they are first discounted by an Indian joint stock bank and subsequently re-discounted by an exchange bank. But where there is no letter of credit, considerable difficulty is felt by the exporter in getting the bills discounted, as it is his personal credit that is taken into consideration, and the exchange banks do not and perhaps cannot make detailed enquiries about his position, worth, etc. Such bills, therefore, are taken only for collection. Even in cases, where a letter of credit is available, the mofussil dealer has to send the bills to the metropolis and generally finds a lot of difficulty about the fixing of rates for discount, ready or forward. This could be avoided, if the local banks could do this business, as enquiries about the trend of exchange could be made from day to day and contracts entered into when convenient.

III.—*Regulation of Banking.*

In the present stage of the development of banking in India, a close supervision of banks by a body of examiners will be very useful and will also create confidence in the minds of the people. The present system of appointing auditors every year makes the position of auditors very delicate. They could never be independent or strict except when the circumstances are really too bad as otherwise they run the risk of not being re-appointed. Further, the auditors are not experts in banking and very often manipulations in bank accounts lie undetected for a long time. Examiners, however, could be chosen from experienced bank officials and given special training subsequently. Their appointment and control may be in the hands of Government as is the case now with the Registrars of co-operative societies.

The examination should be done twice a year and reported to the Central Office who should take such steps as are necessary to remedy defects. Examination should, however, be directed only towards exposing frauds,

glaring irregularities, and fundamental errors in banking and must not meddle with the management or fetter the hands of the Board of Directors.

While examination would thus look to the problems of banking in theory and practice, embracing the technical side of banking, audit should deal with the correct keeping of accounts, books, documents, etc., and look to the mathematical side of banking. Recognition to some banks for purposes of rediscounting has been suggested in the Reserve Bank scheme. Recognition can be given or withdrawn on the report of the examiners. The cost of this examination should, following the analogy of audit in the co-operative movement, be borne at the outset by the State, but may later be shared by the banks in proportion to their net profits. The net profits could be pooled together and a reserve fund created so that in lean years, when there is universal fall in banking profits, establishment charges could be met out of it. This will not be a hardship, as the extra cost will certainly be worth paying in return for the prestige and name gained, to the bank by being examined and certified by an independent body of Government examiners and by being given recognition by the Reserve Bank. This will infuse confidence in the minds of the investing public and deposits will consequently flow in freely.

When there is Governmental control as above indicated and when Government patronage as regards its funds as well as those of *quasi*-governmental bodies is not confined to one bank only as at present, there is no need to place any restrictions as between banks doing the same sort of business; but as between one class of banks and another, restrictions are necessary. The Reserve Bank should not deal with the general public except under extraordinary circumstances; the exchange banks should not receive deposits in this country but should arrange their own finances unless they submit to all the Governmental control as above indicated; the co-operative banks might borrow from other banks but not compete with the commercial banks for deposits. The co-operative banks have been useful to some extent in helping the agriculturists though the indebtedness to the village sowcars has not been relieved to any appreciable extent. Further, the rate of interest has not been reduced considerably. This is possible only when, in co-operation with land mortgage banks, the indebtedness of the ryot to the sowcars is wiped off and money in the hands of the latter made unlendable except at as low rates of interest as the banks. Once this reduction is effected, the high rates and the consequent attraction in private lending disappears and deposits in banks necessarily increase. When the debentures of land mortgage banks and co-operative societies are given the same recognition and validity as those of *quasi*-governmental bodies like port trust, municipalities, etc., the unhealthy competition now existing between co-operative banks and commercial banks will disappear and as a matter of course, there will be co-ordination of effort in the co-operative banks borrowing short term money from commercial banks at cheap rates of interest and in the latter finding this sort of investment safe and reliable. The reduction of interest rates should thus be begun at the very source namely, the villages, and once that is effected, there will be universal fall and the banking habit will automatically develop.

There is no tendency at present to use the word "bank" by an unregistered body, but it is desirable that the word "bank" should be restricted to those who are registered as a banking concern under the Indian Companies Act.

The word " banker " is now being added to the name of many private businessmen and it is, therefore, desirable that its use should be restricted to those who obtain previous permission of the Registrar of joint stock companies and who submit periodical statements as to their position, business, etc. Private moneylenders should be licensed before they could start regular money lending business etc. In the case of a firm or company having the head office outside India, and doing banking business, a similar license should be obtained after submitting a statement of affairs and, in addition, a certain proportion of deposits received in India should be kept as a reserve fund with the Government or the Reserve Bank in the shape of G. P. Notes, or Debentures or Fixed Deposits.

While very little is known about the exchange banks and their management except the prestige they have gained, they are able to attract deposits even greater than all the Indian joint stock banks put together; they help the foreign firms chiefly, in all their exchange transactions the Indian trader comes to a very small portion of it. Indian money is thus utilised to help the trade of the countries to which these exchange banks belong while in India there has been always a dearth of capital for trade and industries. It is, therefore, necessary that restrictions on the exchange Banks for receiving deposits should be placed, the utmost concession that could possibly be given to them being that their deposits should never exceed the total amount invested by them in financing foreign trade of Indian merchants.

As regards capital of banks, very many of the investing public do not understand the difference between authorised and subscribed capital, so that the advertisement of the authorised capital, where the paid-up or the subscribed capital is not even one-tenth, is often misleading. It is, therefore, desirable that the raising of the authorised amount of capital should be made as easy as the issuing of further shares and the distinction between authorised and issued capital removed. It is also necessary to have a certain minimum of paid-up capital fixed before the certificate to commence business could be issued and the amount may be a lakh of rupees. But provision should be made for existing banks by being given time to fall in with this demand, as in insurance companies.

At present, there is no rule as to reserve fund and transfers to it are entirely at the discretion of the shareholders. The result is, very often high dividends are paid without due regard to the building up of a reserve. It is, therefore, necessary that transfers to it should be made compulsory and the prescribed minimum may be on the basis of transferring the same percentage of net profits as the dividend per cent. declared.

While a prudent banker always safeguards his position by keeping his resources as liquid as the time and place require, it is desirable, during these days of the infancy of banking in India, to prescribe a minimum of fluid resources to be maintained.

Besides the Imperial Bank of India, it is only the Central Bank of India, Limited, that publishes its statement of affairs periodically. The publication of these statements every fortnight or month will act as a check against undesirable practices in banks and against window-dressing at every half-yearly closing of accounts; but it is likely to affect adversely the position of the bank once there is any nervousness amongst the depositing public. The fact that a bank's deposits have gone down temporarily owing to a run or to bazar rumours, when made public by the exhibiting of the fortnightly balances, will be subjected to so much comment and will have such

a psychological effect on the depositors in these days, that it is better nc change is made in the existing practice at this stage. Fortnightly state ments of each bank's position may, however, be submitted to the Reserve Bank so that the trend of the money market could thereby be known and regulated.

With this sort of control and co-ordination of banks, it should be possible to eliminate the risk of bank failures or to reduce it to the lowest minimum in normal times. Further, a tradition should grow up for amalgamation in time to prevent failures as, however expeditiously a liquidation might be done and however promptly payments are made to depositors in advance, the shock to the depositing public will be so great that it will take years to win back the confidence thus lost. Reconstruction in the case of credit institutions like banks is almost impossible and so all possible schemes of amalgamation should be explored with the help of the Government examiners. The Reserve Bank should take a lead in such matters. One of the chief reasons why people do not deposit moneys in banks is the repeated failures of banks and the consequent loss of confidence in them. There is a vast scope for development in savings bank deposits and once these deposits are successfully tapped, there is likely to be a regular flow of moneys into banks. But to create confidence in the minds of people and to provide for safety even in case of bank failures, it is advisable to have a statutory obligation whereby 50 per cent. of the savings bank deposits should be invested in long term debentures of industrial and land mortgage banks and a trust created in favour of the depositors. These debentures should be given the same recognition as the municipal and port trust debentures so that in times of crises, the trustees may obtain a loan from the Reserve Bank to give the required help in meeting the demands of the savings bank depositors. In the event of the failure of the bank, it is not unreasonable to expect the dividend to the unsecured creditors to be at least 50 per cent. which, (as in the case of the Alliance Bank of Simla) the Reserve Bank may be able to pay in advance of actual liquidation.

The advantages that would derive from this sort of encouragement given to the savings bank depositors is not merely the accumulation of deposits but also the discouragement to private lending at high rates of interest, which, when provision is made for bad debts and costs of litigation etc., does not work out at any appreciably higher figure than that obtained on savings bank deposits. Further, when security to depositors is thus assured, the hoarding habit of people will ultimately give way to the habit of depositing in banks.

While security to depositors is thus afforded, it is equally necessary to give some measure of protection to banks against unjust attacks by interested persons. A bank lives on the reputation it manages to gain after a period of steady progress and if a single individual persistently attacks it maliciously, the harm done to the bank is sometimes irreparable. It is true that the shareholders should have the right to demand information or to institute an enquiry or even to take the matter to the law courts and that a bank, whose position is safe and sound, should be able to resist even grossly unfair attacks and wilful misrepresentations, but the public at the present stage are so ignorant and nervous that for a period of ten to fifteen years, some measure of protection should be given to banks against the activities of mischievous and interested agitators. The best way, perhaps, is to take evidence in chambers and only when a judge is satisfied that a *prima faci* case has been made out that publicity could be given. Further, penalti

should be imposed where the judge thinks the complainant has launched a suit without sufficient reason.

IV.—*Banking Education.*

The Andhra University has recognised banking and commerce as a special subject and a few colleges have opened these courses. They are not very popular because of the want of sufficient scope for employment of these people after they finish their studies. At present, no attempt is being made to give any practical training to these students with the result that theory is entirely divorced from practice. While it is not possible to train these students in banks as is done in the case of, for example, medical students in hospitals, attempts may be made to appoint "professors who have had practical experience of banking" or appoint bank officials to give special courses of lectures as often as possible. Further, a convention may be established whereby a bank should take up every year a certain number of apprentices in proportion to its size and train them up without any obligation to entertain them in their service, care being taken, at the same time, to see that these probationers do not subsequently join or start rival institutions in the same district for some years.

The examinations of the Institute of Bankers should be of the nature of post-graduate studies, and open only to those who have passed out of the colleges and had subsequent practical training. The exminations could then be made more advanced and bearing more on the practice of banking so that the present worry of having to hold elementary examinations in all sorts of subjects could be saved. A certificate of this Institute should be deemed eccessary for higher posts in banks.

Government scholarships at the rate of two per year for each province should be given for training abroad. Competitive examinations must be held and a minimum of educational and service qualifications prescribed for candidates who should be recommended by banks. The Government or the Reserve Bank should negotiate with banks abroad for affording these students some facilities for observing banking methods there, as otherwise it will be impossible for them to learn anything useful.

V.—*General Banking Organisation and Money Market.*

The organisation of banking in India, as has already been indicated, lies chiefly in the direction of encouraging and fostering the growth of Indian joint stock banks unhampered by the unfair competition of exchange banks and of the State-aided but not State-controlled Imperial Bank. A sort of protection, until the indigenous banks are in a position to hold their own, is absolutely necessary. Otherwise it is impossible at this stage for banking to develop in India. The same point has been made clear and strengthened by a statement made by Sir Basil Blackett when he was Finance Member that it was the duty of the State to lend a helping hand to the indigenous banks, if necessary, through the Bankers' Bank, namely, the Imperial Bank of India. The co-operative banks and the land mortgage banks should be organised so as to help the liquidation of rural indebtedness and making the ryot independent of the money-lender and to do his work undisturbed; the industrial banks must help the development of such industries as have natural advantages in India and

could ultimately be worked out successfully ; the savings and commercial banks may be allowed full growth by the removal of the various handicaps and disabilities they are suffering from ; the Imperial Bank may continue to receive the help of the Government for some time but should be relegated to the position of an exchange bank. The Reserve Bank should be brought into existence to help the growth of all these banks by its supervision, control and active help wherever and whenever required. With the money-lender thus forced to change his methods, with the Imperial Bank, with all its prestige and strength, exclusively looking after the exchange requirements of the whole country and with the exchange banks operating on a restricted scale, banking in India is bound to develop slowly and steadily. There has never been any lack of co-operation between the few Indian banks now existing. With this sort of control of the Reserve Bank, banks working in one direction, with one purpose and with equal opportunities, could develop a spirit of healthy rivalry. The exchange banks have never cared to associate themselves with the indigenous banks, having organised for themselves an association of their own ; the Imperial Bank, except in a few instances, has never sympathetically looked upon the struggling Indian banks but has, at every opportunity, entered into competition with them at times, even in an unscrupulous manner ; and to expect them to co-operate with Indian banks except when it benefits them is useless. The merest suspicion or rumour is enough to make the exchange banks cut off their connections with the bank in question.

Admission to the Clearing House has been always a jealously-guarded monopoly of the members where the exchange banks are generally in the majority. The Indian banks have found it very difficult to gain admission. The example of the Punjab National Bank is perhaps the most striking. The question of clearing houses will not be a serious one as membership could be restricted to those that submit to the supervision of the Reserve Bank and have been recognised for the purpose of rediscounting facilities, etc.

With this co-ordination of effort in every direction, with the increase in the banking habit and with legislation to check the activities of people working with a malicious intention, the occasion for panic amongst the public would be reduced to a considerable extent. The best remedy for panics is wide-spread general education and growth of a healthy public opinion. The assurance of the Reserve Bank to back up any sound bank when affected by a panic would go a long way towards restoring public confidence.

This would sometimes require actual financial assistance so that there should be a provision in the Reserve Bank Act by which the Reserve Bank could, in consultation with its directors and with the minister (or the Executive Council member as the case may be) in charge of the particular portfolio, assist the bank in trouble by advancing expeditiously such funds as the position would warrant. A financial panic would not stop with one bank but would easily extend to several others and so, such of the other banks as could afford it should pool their cash resources with the Reserve Bank so that the latter may not feel any special difficulty in dealing with the situation. Further, in consideration of the Reserve Bank offering to rediscount bills for the recognised banks, the former should make a condition that all or a portion of the reserve fund should always be kept with it for meeting such emergencies. This will not be a hardship

on banks as the rediscounting facilities will help them in turning into cash what is now-a-days being invested in bills and this amount could then be used in ordinary banking business making up for the loss in working funds by the deposit of the amount of the reserve fund in the Reserve Bank.

All these changes will place the Reserve Bank in a position to control the money market and the rates of interest on advances will adjust themselves to some extent according to the rate for rediscounting of bills. The chief difficulty will, however, be the attracting of deposits at low rates of interest and until this is possible, interest rates on loans are bound to be rather high, varying with each locality, and with the position and standing of the bank. The cost of management of Indian joint-stock banks where Europeans are few or none at all is comparatively low. The salaries paid in such institutions are not high enough to attract the best men. But a good deal of economy is possible by the employment of Indians in banks like the Imperial where there is a preponderance of European element in the higher grades. The attempts to Indianise are feeble and the results not encouraging but if sufficient encouragement is given, men of the required type could be attracted. This is the best way of reducing the cost of management.

When Indianisation is taken in hand and banking education is thus given some encouragement, the establishment of new banks and expansion of old ones will not be difficult. At present, people with experience and knowledge of banking affairs are very few and oftentimes we find institutions started and coming to grief through want of capable men to manage them. Where there is the necessary initiative to establish a bank, trained men are not found or, even if found, are not entertained in service with the result the bank is conducted in a crude and old fashioned style and gets a stunted growth and ultimately dies a natural death unless, meantime, some interested individual mismanages or deals fraudulently bringing about a sudden death. The dividends in the case of this sort of banks might be high because of the low cost of management and because of the high rates of interest charged for advances, but what they do is not banking but what is essentially mere money-lending.

The case of the bigger joint stock banks is, however, different. They are unable to expand because of the competition of other banks, chief amongst them being the Imperial Bank and the exchange banks, and because of the various disabilities they suffer from. Unless there is a central agency like the Reserve Bank to direct and control the money market and unless equal opportunities and some patronage and certain amount of protection to Indian banks are given for some time, it is difficult for them to develop rapidly. The want of young men with the required education and practical training is also one of the reasons why expansion of existing banks has not been possible; but this supply of trained men could only go hand in hand with expansion and is as much the result as the cause of expansion.

When the Reserve Bank begins giving rediscounting facilities, it has to be considered how far it is possible to expect usance bills to come into existence and become popular. In an essentially agricultural country like India, the produce is sold outright for cash and is subsequently exported. The bulk of the export business is in the hands of European firms so that usance bills amongst Indians representing the sale of produce will not be many. In import business, these bills could be popularised as between

the wholesale dealer and the retailer. In the few industries that India is having, the habit of drawing usance bills might be introduced; anyhow bills of exchange in India cannot be as popular and as representative of genuine trade transactions as in other countries.

Accommodation bills may, however, take the place of the "Kathas" or current or overdraft accounts as between merchants that are now so common. The chief obstacles to the development of these usance bills have been the high stamp duty and the want of rediscounting facilities for banks. Banks would have tried to popularise these bills, but there has not been any particular benefit to them by this in the shape of rediscounting facilities by the Imperial Bank. So, if the stamp duty is reduced and if bills are freely rediscounted as between small banks and big and as between big banks and the Reserve Bank, commercial paper will come into vogue though there is no certainty that accommodation bills will not predominate. The Imperial Bank tried to introduce these hundies in these parts but could never make them popular (even when the stamp duty was offered to be paid by the Bank), because of the short usance of the bills and because of the strictness as to the due date. The Marwaries dealing in these parts in particular never took to them kindly. The Multani bankers, however, are increasing their sphere of activities and popularising the hundies and, in due course, with banks also working towards the same end and with reduced stamp duty they will ultimately replace the pronote and the "Katha".

It is unfortunate that Government should be the biggest competitor of banks for deposits and still more unfortunate that the benefit of this competition, if any, goes to the Imperial Bank exclusively. It is generally the educated section of the people that go in for savings bank deposits and for these the Government get a monopoly through the post offices. The postal cash certificates attract all the fixed deposits from these people because of the greater security and higher rates of interest. The sale of treasury bills, which was originally introduced as a purely temporary measure, has now come to stay and the wealthier, more intelligent and calculating section of people invest their money in these. The Indian joint stock banks have therefore very few avenues for exploration of deposits and even if they get any deposits, it is generally from those who want the higher rate of interest and greater facilities but would always keep themselves on the alert and withdraw their deposits on the slightest suspicion. These nervous depositors are always a great danger to banks but still they are the only ones available. As if these handicaps are not sufficient, the depreciation in Government securities has hit the Indian joint stock banks very hard. Owing to the nervousness of depositors and the possibility of a run at any time and owing to the want of any agency which would render assistance in times of need, Indian joint stock banks are obliged to keep a strong liquid position by purchasing Government securities such as is not at all required either by the exchange banks or the Imperial Bank or even the co-operative banks. The Government, regardless of the effects of the depreciation in its securities, is violently disturbing that market by selling the treasury bills at higher rates of interest and by floating fresh loans at more attractive terms. A continuance of this state of affairs will tell adversely on the fortunes of several Indian Banks and it is time some measures are taken to stop the depreciation. While it has to be conceded that the Government in all its activities in attracting savings bank deposits, Postal Cash Certificates and Treasury Bill Sales, is developing the banking habit in people, it is necessary

that either the benefits of these deposits should be given to the banks in some shape or other through the agency of the Reserve Bank or it should stop its activities leaving a wide field for the banks to develop banking in all its various phases.

Imperial Bank of India.—This bank is the principal medium for transfers of money from place to place. With its branches at almost every produce centre, it has been able to finance the actual producer until he chooses to dispose off his stock. The movement of the crops too is financed until the time of the actual export to foreign countries. By its activities in this direction, the bank has been able to penetrate into the remotest villages and popularise banking. It also lends to other banks against Government securities and to industrial concerns against raw products, etc. Indigenous bankers, and Multani and Marwari money-lenders are also financed to a large extent.

But the work of the Imperial Bank has been far from being satisfactory and it is time its future position is carefully considered and scope defined. Owing to Government support, it should have developed into a Bankers' Bank, but it has gained to itself all the prestige, power and influence of a Bankers' Bank without, at the same time, taking upon itself the duties and responsibilities incidental to the position. When the Imperial Bank Act was passed, care was taken to see that the exchange banks were not in any way adversely affected but the case of the Indian joint stock banks was neglected. Having at its disposal enormous funds of the Government and *quasi*-governmental bodies at low rates of interest, and, having been able to attract, by the prestige it has gained by being the Government's bank, deposits at comparatively low rates of interest, it is able to offer greater facilities to businessmen at cheaper rates of interest than the Indian joint stock banks. The latter are, therefore, placed in a disadvantageous position and are obliged to handle only second and third class business. In the matter of transfers of funds and in several other similar matters no special concessions are allowed to Indian banks but wherever possible, the Imperial Bank does not hesitate to enter into keen competition by cutting its own rates.

The branches of the Imperial Bank have done only a minor portion of the work that is necessary to popularise banking. The reserve and aloofness maintained by the bank's officials, the fact that the branch agents are generally Europeans who do not know the local languages and who cannot move freely with people, the inordinate delay caused in every transaction, the indifference towards the customers, the distance of the office from the business locality, the unwillingness to allow cheques to be drawn in vernacular and to have correspondence in vernacular at least to some extent, have all contributed to make the bank unpopular. No attempts have been made to induce people to deposit moneys in current or savings bank accounts as the bank has never felt the need to attract deposits. It surrounds itself with an atmosphere of bureaucratic condescension akin to that which prevailed in other countries a century or two back. People go there with the greatest reluctance and that too only because they cannot help it.

Such being the case, an Indian joint stock bank, struggling hard to attract deposits and trying its level best to meet the wishes of its constituents as far as possible, finds itself faced with the competition of the Imperial Bank and unable to cope with it. Most of the smaller and newly-opened branches of the Imperial Bank are hardly self-supporting and for

banking to develop on the right lines, it is not this bank that should be helped but the Indian joint stock banks. As it is, the opening of a new bank or the branch of an existing bank is a very difficult thing, because of the attitude of the Imperial Bank. Instances are not wanting where promoters of a new bank are dissuaded from the work, where borrowers of a new branch of a bank are threatened with the cancellation of all existing facilities and where even the usual facilities allowed to its ordinary clients or even the common courtesy of a co-banker are denied by the Imperial Bank to the indigenous bank, though the existence of a small local bank cannot be considered to be even a flea bite to this gigantic institution. In times of difficulty, there is no instance of the Imperial Bank having assisted an Indian bank except it be against deposit of Government securities.

The Imperial Bank has thus failed to occupy the position of a Bankers' Bank and has been working like an ordinary commercial bank with Government help. Neither its opening of branches nor its activities in helping trade and commerce have been such as to justify the further continuance of State aid or such as to foster the growth of other Indian banks. It is, therefore, necessary to make the best of existing circumstances. When the Reserve Bank comes into existence as the Bankers' Bank to look after all the monetary problems relating to inland trade and incidentally helping the growth of indigenous banks, it will be found necessary to have a bank dealing exclusively in foreign exchanges and controlling its fluctuations ; and such a bank will require the help of the Government. The Imperial Bank with its many branches, with treasury work in its hands for a number of years and with the experience it has gained, could be safely entrusted with this work. Neither the Government nor the Reserve Bank need then worry themselves about foreign exchanges, except where their help is solicited.

This arrangement will suit eminently all concerned directly with the development of Indian banks. The co-operative banks and the commercial banks will work for attracting current savings and fixed deposits and then invest moneys in their respective spheres ; the land mortgage banks and the industrial banks will float debentures and attract long term deposits ; the Imperial Bank will look exclusively to the financing of the foreign trade of the country and the Reserve Bank will supervise them all and regulate the money market. Equal opportunities should be given to all regarding the deposits of governmental and *quasi*-governmental bodies to allow of their unhampered growth. The exchange banks will perhaps find in the Imperial Bank a strong rival but the former are in a position to look after their own interests and require no special protection from the Indian Government. They have had enough of it for over at least a decade.

No. 3.

Statement of evidence submitted by Mr. R. C. Pandit, General Manager, Bank of Behar, Limited, Patna.

REGULATION OF BANKING.

AUDIT.

The present system is that the accounts of banks are audited by persons who have been licensed by the Government under the Indian Companies Act. In the cases of the Alliance Bank and the Bengal National Bank, now under liquidation, the accounts were regularly audited by chartered accountants, than whom no more qualified auditors were or are available; but this did not help the banks in any way. An audit or examination even by special auditors will not be of much use, while on the other hand it may likely do incalculable harm, if there be differences of opinion regarding investments with the management, and the publication of such reports.

The Government of India are establishing an Accountancy Board to better organise the profession of accountants. If necessary, a higher class of accountants may only be certified as competent to audit the accounts of banks.

The auditor or examiner as contemplated, will certainly be not acquainted with the means and position of the customers of a bank, or the different vernaculars in which documents are executed. The business of Indian banks is not conducted on the lines of exchange banks or of the Imperial Bank, where loans are for short periods and the values easily ascertained. We apprehend such audits would be more harmful than useful to Indian managed banks.

It had been the unfortunate experience in this Province that the reports submitted by Government auditors have been found to be wrong and misleading. It would be in the highest degree undesirable to entrust the existence and well-being of a credit institution to such a class of people, and their reports. I would refer to Appendix "A" in this connection.

RESTRICTION.

We are against restrictions being imposed on the business of Indian banks.

BALANCE-SHEETS OF PRIVATE BANKERS.

In our opinion a private "banking" firm when receiving deposits from the public should be required to publish its accounts, properly audited, once a year.

RESTRICTION ON FOREIGN BANKS.

Foreign banks or banking firms should be allowed to open offices in India under license only. The following conditions should be imposed:—

(1) 50 per cent. of their funds employed in India should be from their country of origin,

(2) balance-sheets of their assets and liabilities and income and expenses in India are audited and published yearly.

(3) their activities confined to the port towns,

(4) these should be enforced by the Central Government through the Finance Department,

(5) see reply, 2, 3.

SPECIAL BANK ACT.

Banks may be registered under a Special Bank Act, but we are of opinion that no restrictions of the nature suggested should be placed, as it would retard the starting of such banks. Special privileges and concessions may be given to banks which satisfy a certain standard.

Plans of amalgamation or reconstruction would certainly have saved and will save some. This would, however, be practically a dead letter. Such amalgamation or reconstruction can only be carried out, when we have a really sympathetic Bankers' Bank and a sympathetic Government in the country. Neither exists at present.

DISTINCTION BETWEEN ACCOUNTS.

No distinction should be made between current accounts and other deposits in the matter of protection.

BANKING EDUCATION.

No facilities for banking education exist in this Province in any school, college or in the University. The Indian Institute of Bankers' has started only lately and it is too early to offer suggestions regarding its constitution; its branches may, however, be established where there are more than 25 members. It may be necessary to subsidise it to some extent.

Each Provincial Government should allow one scholarship every year, tenable abroad, to suitable candidates, for the next three years and thereafter every alternate year, for theoretical and practical training in banking.

The Institute of Bankers may also arrange for interchange of employees for training in the bigger banks.

Government do a very large amount of banking business but the ignorance of its officers regarding banking practice and law of Negotiable Instruments is appalling. Even Treasury officers, who pass hundreds of cheques, have no idea of the difference between a "bearer" and "order" cheque. Short course may be provided for this class of officers to avoid needless harassment to the public. In our opinion, better training of bank managers and employees is more desirable and urgent than having more stringent audit.

GENERAL BANKING EXPANSION.

Large advancement in banking and in banking habits is possible if Government takes administrative action. It is the general experience that if a person starts coming into a bank, he becomes its client sooner or later.

The problem is how to make more and more people go to banks and keep banking accounts.

Government are the largest employer, they are the biggest receivers of money, every body who is worth anything has to pay or receive money, from one or other of the various departments of Government. First of all it should be made a rule that all payments of sums more than say Rs. 50 made by Government should be by means of cheques. All other kinds of forms should be abolished. This will not only be a great convenience to the public, but at the same time induce a large number of people to pay such cheques to the nearest bank and take only such sums as they actually require. Banking habits and banking capital will considerably grow by this means.

Similarly, under suitable safeguards, cheques of approved banks may be accepted by all Governmnt departments in payment of their dues.

The wages paid by either indigenous bankers or joint stock banks are not high; the expenses can only be reduced by handling a larger volume of business.

This is only possible when banking habits spread much more widely than is the case at present

Greater stability of banks can only be assured when there is a real Bankers' Bank or Reserve Bank taking interest in them and in close touch with them.

The rates of interest can be lowered with larger resources and more regular employment of funds.

Resources can be augmented if banks are allowed to receive deposits of semi-public bodies, and the Government officials help to give them a "character". Otherwise, it is a hard, uphill and expensive task gathering resources.

New branches of approved banks may be subsidised with funds by the Government at low rates of interest, and local semi-public bodies allowed to bank with them. Foreign capital would also be useful if it could be obtained at sufficiently low rates.

COMMERCIAL BILLS.

In this province commercial bills are not available in any large quantity. One of the main reasons is the high stamp duty on "mudatti" bills, and then the great difficulty of getting hundi papers. There are districts in which not only the stamp vendors do not stock these but they are not available in the Government Treasury even. The lowering of stamp duty, and the using of postage stamps to cover the duty, which all post offices may be authorised to stamp and cancel, thus giving the date, will be very convenient and useful. Instances are known where people have affixed the requisite postage stamps to show their *bona fides*, and in others, have left such bills unstamped, owing to the difficulties of getting the necessary stamped papers. The other effect had been the greater use of the khata system, which, however, does not make the debt negotiable.

The paucity of commercial bills in the province would be apparent from the figures of sales in this province of hundi or inland bills of exchange papers, as published by Government, in the Report on the Administration of Stamp Department:

	Rs
In 1927-28	8,423
In 1926-27	7,973

There are districts in which not a single rupee worth of hundi paper is sold, while the Chotanagpore division, which comprises the coalfields, mica mines, Jamshedpore with its iron, steel and other industries, and where very extensive railway and other construction work is going on, account for only Rs. 31 in the year 1927-28 and Rs. 10 in the year 1926-27.

Indian Banks and Government.

The difficulty with Indian banks is that not only they do not get any encouragement from the Government, but on the other hand responsible officers go out of their way to throw suspicion and discredit on them. It is more unfortunate that considerations and favours, which are refused to Indian institutions, are readily and willingly shown to foreign banks and institutions.

After the collapse of the Alliance Bank, there were runs on European managed banks, and one large institution was saved only by the active interest taken by high European officials. This was done only because European interests were concerned, and if an Indian institution was concerned it would probably have gone to the wall, for want of timely support.

We give below some of the instances in which this bank had been given a rather unceremonious "no".

About the year 1915, building sites in the new Capital area were being allotted to applicants, on Government land acquired for the purpose. The manager approached the Collector of Patna, for allotting a plot to the bank, which was refused, the reason being that these sites were meant for private residences and not for commercial firms or offices.

The Allahabad Bank, however, applied for a site and was readily given it. The only reason for this favouritism was that the manager of the Allahabad Bank and the bank itself were Europeans, while the Behar Bank was a local Indian institution

The present attitude the Government towards industrial and banking development of the country was clearly indicated when they refused to entertain the proposal made by this bank to finance the Cuttack Electrification scheme, and it was quite plain that the Government desired to curb all honest enterprise, which may, even remotely, affect or compete with the exploitation of the country by foreigners. The following are the salient points:

I. Government brings forward proposal in the local Council to open negotiation with Messrs. Octavious Steel & Co. to establish a public electric supply company for Cuttack and to give them a loan up to rupees three lakhs.

II. The resolution is opposed in Council, and the Government is requested to publish advertisement, inviting applications and to give preference to Indian firms.

III. Government accepts the new proposal.

IV. Tenders are invited, and three Indian firms tender, one being of Mr. B. Das, M.L.A. of Cuttack, with the financial guarantee of one lakh from Bank of Behar, Ltd.

V. The tender of Mr. Das is rejected on the plea of "financial arrangements were not satisfactory".

VI. The Bank of Behar enquires "in what respect these were so, and if the Government were to say clearly what they want for giving the promised financial help of three lakhs of rupees the Bank will be prepared to reconsider the offer and meet the Government requirement."

VII. Government in reply stated that they "cannot enter into discussion of their reasons".

VIII. The bank replied they had no desire to enter into a discussion but believing in the oft repeated declaration of the Government, for helping and encouraging local enterprise, had offered to meet all Government requirements.

IX. The tenders of the other two Indian firms are also rejected.

X. Messrs. Octavious Steel & Co., after some delay, finally get the license for supply of electricity at Cuttack.

The mentality of the Government is further disclosed by the way Mr. Owen, I.C.S., Secretary of Local Self-Government Department, mixed up this bank in his defence for suppressing the Gaya District Board in the local Council. The bank had advanced money to several contractors of the Gaya District Board to carry on their work, on the Chairman of the Board undertaking to pay out of their bills when these were due. The interest charged was 10 p.c. p. a. This transaction was attempted to be shewn as an unfair and underhand one and as adding up costs of the work by 10 p.c.

The transaction on the other hand was a fair and legitimate work of the bank, and facilitated the work of the contractors, who not only got cheaper money, but at the time they required, and the nett result was better and cheaper work for the District Board.

These facilities were so much appreciated that the Gaya Municipality also requested us to finance their contractors on similar terms. Seeing the attitude of the Government and their desire to create trouble even in honest and straight business we stopped this kind of work. It may be noted that contractors cannot get finance under 12 per cent. with securities and about 18 per cent. without securities and that also after considerable trouble and running about.

A business bringing benefit to all concerned was closed by the action of the Government. Appendix "B" gives the Government view of this transaction.

Our latest experience of the Government's desire to help and encourage us was the refusal to give us formal permission to cut up base and false coins. There are a very large number of these in circulation, and the public and banks require protection, but the "Governor in Council", for reasons best known to itself, refused to give us this right which was as much in its own interests as in ours.

We and the public take these as indications of the Government's real policy of discouragement towards Indian concerns.

Imperial Bank of India

This bank and, we believe, other Indian banks derive no advantage worth the name from the Imperial Bank. It is, sometimes called the Bankers' Bank in India but this is a mere eyewash

The Imperial Bank does not trust or wants to trust Indian banks, and the Indian banks are diffident of approaching it with any proposal, as a refusal is bound to come in 99 cases out of 100.

In the year 1913, after the failure of the Peoples' Bank, we approached the Bank of Bengal, as the Imperial Bank then was, for a loan on the security of G. P. Notes, it was apprehended that there might be a run on us. The Agent was pleased to say that he could not make any advances until and unless the securities were first verified as genuine by the Public Debt Office. This was probably his orders and it did not matter to the Agent that these were being presented to him by a responsible party, and that if, at a time of panic a bank wants money, it wants it just then, and if it were to wait for a week, it would either meet all calls on it or close down. This was our first experience and we find not much change in the attitude or mentality of the successor to the Bank of Bengal, *i.e.*, the Imperial Bank of India.

Several years later we approached the Bank of Bengal again to rediscount demand drafts purchased by us on Calcutta during the busy season. The Bank wanted us to supply the names of the parties on whom these would be drawn. It was a meaningless demand and impossible to comply with. These drafts are drawn on arhatiyas or agents in Calcutta, whose number is legion, and each party has its own agent and it was impossible to say beforehand on whom these would be drawn and a list would have had to give practically the names of all arhatiyas in Calcutta, who number several hundreds. The information would have supplied no useful purpose as the arhatiyas do not take any liability when the bill is discounted by the bank; they pay or refuse it on presentation. It might have been drawn on the most solvent party but it would not have helped the bank in any way. The information could not be given and the business fell through.

The Imperial Bank enters into active competition with other banks in the business of transfer of funds, and advances. The privileged position, as banker to the Government, and command of funds at cheap rates, enables it to offer low rates, and it is impossible to compete with it.

The Imperial Bank does not give any consideration or concession to the smaller joint stock banks, and it would be a joke to call it the Bankers' Bank in India. The rates which it charges the joint stock banks are the same as it charges to its other customers.

It takes no interest in the development of Indian banking. It recognises no credit or position of any Indian bank. It will advance money against Government Promissory Notes, or other approved security at the prevailing bank rate. This is the utmost it will do. Larger industries, like jute, coal, metals, sugar, etc., are in the hands of foreigners and it is them that the Imperial Bank mainly finances. In financing the movement of crops, the Imperial Bank plays a minor part in this Province. It is only when the merchants in the bazar are unable to absorb the bills available that these go to it. Another reason is that the charges of the Imperial Bank are too high for such transfers and the Bank does not go with the market or control it. It stands aloof and allows the market to adjust itself as best as it can. Calcutta being very near, people under such circumstances prefer to get funds in cash or G. C. notes, which come cheaper and save much trouble.

In the supply or exchange of currency notes and of silver there is always trouble. The issue of notes is restricted on the supposition that these will be utilised for remittance purposes.

The hours of transacting Government business are very short.

People do not expect much help from the Imperial Bank, constituted as it is at present, with a large European element controlling it. If it continues in the same position then the privileges given to it by the Government should be withdrawn, and the Bank left to work on its own account and with its own resources.

The new branches of the Imperial Bank of India, in a number of places, serve no useful purpose, and only cut into the business of local banks. A Government subsidised institution, by the present policy of the Government, is retarding the growth and development of joint stock banks.

The Imperial Bank should have been allowed to establish overseas branches and to enter into exchange business, which is in the hands of foreign banks, but instead of doing this it has been directed to bring banking facilities to remote places, with not much benefit to many.

CREDIT FACILITIES.

The present position regarding credit facilities for producers, merchants, and manufacturers is highly unsatisfactory. Credit facilities are no doubt available to certain classes, but these are often found to be inadequate. The Marwari tradesman or merchant will get credit facilities from shroffs of his own community, or wholesale merchants and dealers, by way of discounting bills, trade credits, or deferred payments; facilities are usually available for merchants and others, from capitalists of their own community, or those who have their offices at places where the merchant works; but as soon as he wants to break new ground, or move from his own groove, there are great difficulties for finance. For example, a cloth merchant has his home in a small town, where he may own properties, he has a large shop and gets large credits from his arhatiyas (suppliers) in Calcutta, Cawnpore or Bombay. But if for other business or any reason he wants to raise money, and for which he may offer stocks or landed property, he will have difficulties and will have to pay high interest to the local money lender, and incur additional expenditure in executing a mortgage bond. A very large number of educated people desire to take up commercial pursuits, but being new to the work and having no trade connections, they do not get even the usual trade credits, and though they are possessed of properties, cannot get credit facilities. Land is the best and safest security, but owing to legal difficulties, complicated procedure, and expenses, people are unable to utilize it for the purpose of creating credit. This bars a large field for useful investment to the bank and banker, and at the same time handicaps commercial and industrial development, as those who have landed security cannot easily raise money on it.

Our suggestion is that on the lines of equitable mortgages, which can be done in Presidency towns, the law should be modified so that a kind of "banker's mortgages" may be brought into existence, with the following privileges:—

(1) Stamp duty should be Re. 1 only irrespective of the amount.

(2) Registration charges should be one-fourth of the scale for ordinary mortgages.

(3) The period for which such mortgages would be valid, should be 15 months, after which it should cease to be a mortgage and be only an ordinary unsecured debt.

(4) Title deeds to properties covered by these mortgages, should be deposited with the mortgage deed. For purposes of title it would be sufficient if the name of the mortgagor is on the Government or municipal register relating to the property, and no person could create a mortgage unless his name is recorded as proprietor.

(5) That when a suit is filed:

(a) instead of personal service of summons and notices, it shall be sufficient if these are published in the local Gazette, a local newspaper, and being sent by register post to the last known address, of the borrower;

(b) that within 60 days of the service of such notice the court shall be bound to pass a decree in favour of the bank for the amount claimed unless the borrower appears and contests the claim;

(c) no borrower shall be allowed to appear and contest a claim or any portion of it unless he deposits in cash or gives security for the amount which is in contest.

That such mortgages may only be executed in favour of the Imperial Bank, banks registered under the Indian Companies Act, or such acts as may be in force in future, Banks registered under the Co-operative Societies Act, and such banks and bankers as the Government may notify from time to time.

Under the Transfer of Property Act, the right to create an equitable mortgage with or without a formal deed is confined to Presidency towns only. The co-operative banks have been given the privilege of getting mortgage bonds executed without paying any stamp duty and they have further the right of asking the Registrar to issue a certificate for their dues, without going through all the harassment and delay of a law suit.

What we suggest is that one uniform and simple procedure should be enforced for all places and for all banks.

APPENDIX A.

WORK OF GOVERNMENT AUDITORS.

B. & O. Legislative Council Proceedings dated 7th March, 1929.

P. 258.

Question :—

(*a*) Is it a fact that the accounts of the B. & O. Co-operative Federation are audited by Government Auditors?

(*b*) Is it a fact that the Chief Auditor pointed out certain mistakes in the audit notes of the Government auditor?

Reply :—

(*a*) Yes, from 1921 to 1928.

(*b*) to (*e*) The answer is in the affirmative.

* * * * *

B. & O. Legislative Council Proceedings P. 967.

S. K. Sinha :—

"He (Minister) then procured the services of a pliable auditor and ordered him not only to audit the accounts or to ascertain the financial position of the Board * * * but also go into and practically revise the result of the previous enquiry. This auditor knew which way the wind was blowing * * he cooked the figures to suit the Minister's wishes. * * The Local Government too did not have the decency to call for an explanation from the board, but proceeded on the basis of such report to pass a resolution condemning the board".

P. 999.

Mr. G. E. Owen (Secretary to Government).

" * * I will give some details later on showing how and why the auditor went wrong. He did go wrong and I do not deny that".

P. 1013.

"The auditor, however, did make some mistakes.

By a silly mistake he included the same figure twice * If by this mistake he added to the board's liabilities, he omitted a much larger liability * * He made another exactly similar and silly mistake * * Another of his mistakes was to include a working balance of two months recurring expenditure in the estimates of the Board's liabilities".

APPENDIX B.

B. & O. Legislative Council Proceedings dated 8th March, 1929.

P. 992.

Mr. G. E. Owen:

"Another expedient which fairly takes one's breath away, was that extraordinary transaction, by which the executives, one or both of them—I think I had better say the chairman of the late board, when he had no money to pay his bills, made a private arrangement with a well-known bank, under which after writing letters signed by himself to the bank, that bank paid large sums of money to contractors, generally at 10 p.c. on the personal undertaking of the Chairman that he would put things right, and would pay not the contractors but the bank.
* * They were transactions not isolated * they were transactions, which continued to be carried for over three years.
* * In the following year a sum of money amounting to 1¼ lakhs was similarly obtained by this extraordinary unauthorized loan method.

* * * * * *

P. 1036.

Mr. Heycock:
* * the custom was that as the Board could not find money to pay the contractors they gave an authority to the bank to cash certain contractors bills and to charge contractors 10 p. c. interest for the privilege of getting their bills cashed by the Bank. * * I considered and I still consider that this method of financing the board was wholly wrong and totally bad. * * * the board can hardly justify its action in asking the contractors to go to a bank and get paid and pay 10 p. c. interest for the privilege."

NOTE.—The loans were given to the contractors and not to the District Board; they executed promissory notes, for the sums taken, and the Chairman, District Board, at the request of the contractors, undertook to pay out of the bills when these were due.

No. 4.

Bank of India, Limited—Reply to the Special Questionnaire of the Indian Central Banking Enquiry Committee.

Question 1.—What has been the effect of the opening of branches by the Imperial Bank on (*a*) deposits of Indian joint stock banks' branches, (*b*) their turnover, and (*c*) the rates of interest prevailing in such centres?

Answer.—The Bank of India, Ltd., has branches only at—

1. Ahmedabad,
2. Calcutta,
3. Poona,
4. Bandra.

The Imperial Bank has no branch at Bandra, there were branches of the Imperial Bank at the other places long before the Bank of India Ltd., opened.

In these circumstances we are not in a position to answer this question.

Question 2.—Mr. Bowie mentioned in his evidence before the Hilton Young Commission instances where the Imperial Bank on opening a branch had quoted definitely unremunerative rates for remittance and purchase of bills. Has this practice continued and if so, are there any cases where the joint stock banks' branches are in serious danger of having to close down?

Answer.—For the reason given in the answer to question No. 1, the Bank of India Ltd., is unable to answer the question raised by Mr. Bowie. The Imperial Bank at Ahmedabad, Calcutta and Poona has at all times treated the Bank of India Ltd., reasonably in regard to T. T. and other remittances, and in other matters also; but we consider that the Imperial Bank should confine its operations strictly to business which it is entitled to conduct under the Imperial Bank Act. We should welcome the further extension of branch banking by the Imperial Bank.

Question 3.—Suggestions have been made from time to time that there should be more co-operation between Indian joint stock banks and between them and the Imperial Bank. Has the possibility of starting a Bankers' Association been considered with a view to laying down from time to time certain general principles which, while giving members reasonable freedom in competition, would restrict "cut-throat" competition, and facilitate business generally? What are your views on this subject?

Answer.—The Bank of India Ltd., is in favour of healthy competition. There is at present some co-operation amongst banks generally, as practically all banks are members of the Bankers' Clearing House. There was much unhealthy competition for call advances against bullion—when Bank Rate was 4 per cent. the Imperial Bank (we believe) lent money against bullion at 3 per cent. or even at 2 per cent.—we then offered to lend at 1½ per cent. or even 1 per cent.

After a time the Imperial Bank presumably realised the unfairness of lending money at such low rates when it charged the best exchange and local banks interest at Bank Rate for advances against Government Paper—we believe it now lends at Bank Rate.

The Imperial Bank has recently issued a circular (to the clearing banks) announcing that in future its rates for certain class of T. T. business will be increased from 1/32 per cent. to 3/64 per cent.—an increase of 50 per cent. — also that interest on loans against Govt. Paper will be charged for at least 7 days instead of 3 days as heretofore.

We regret exceedingly that it should have considered necessary or desirable to curtail facilities to banks at this juncture, which facilities have been in operation for many years.

We consider that further co-operation between the Imperial Bank and the clearing banks is rendered very difficult, if not impossible, owing to the manner in which the Banks' Clearing House is conducted, *vide* Mr. Gray's evidence before the Bombay Provincial Committee.

We are of course in favour of the Imperial Bank being properly remunerated in respect of its conduct of the Bankers' Clearing House.

Figures showing the actual average credit balances maintained by clearing banks with the Imperial Bank during the year ending 15th September 1930, also the average balances during each month of the same year, would be useful in determining the question of adequate remuneration.

We think that the Imperial Bank weekly statement should disclose (1) Pubilc, *i.e.*, Government deposits Rs.————(2) Other deposits
(*a*) Banks Rs.————
(*b*) Others Rs.———— and Rs.————

Question 4.—Complaints are being made that owing to the monopoly of foreign exchange business the exchange banks are able to attract deposits at lower rates than the Indian joint stock banks to the disadvantage of the latter? What has been your experience in this respect? Do you find that your inability (from whatever cause) to take a considerable part in exchange business in any way affects your potential deposits? What would be your views on any proposals to restrict in any way the operations of the exchange banks?

Answer.—We cannot support this complaint. Our experience is that new banks have to pay higher rates for deposits. When this Bank was established in 1906 we paid for yearly deposits ½ per cent. more than the old established exchange banks—now after 24 years' working we pay about the same rate.

The rate payable for deposits is governed primarily by the credit and standing of the borrowing bank.

We do not consider that our non-participation in exchange operations affects our potential deposits except to the extent that people dealing in foreign exchange must necessarily keep an account with one or more exchange banks. We consider that the particulars required (in the case of banks) by Act VII of 1913 should be disclosed in the balance sheets of *all* banks operating in India. Some slight alterations in this Act may be necessary—fully secured debts, personally secured debts, etc., should be carefully defined.

It is very unfair that Indian joint stock banks should be subjected to rigorous regulations while other banks, exchange and Imperial, should be free from such obligation.

Question 5.—It has been stated that exchange banks by opening branches up-country are becoming serious competitors of the Indian joint stock banks. What are your views on this subject?

Answer.—As there are no branch exchange banks at Ahmedabad or Poona (our only mofussil branches) we are unable to answer this question.

Question 6.—Can you suggest any methods by which the position of Indian joint stock banks can be improved and the developments of such banks facilitated?

Answer.—(*a*) We consider that there should be a Reserve or a Currency Bank of India.

(*b*) We are of opinion that a premier Indian bank should enter into foreign exchange operations and that Government should take the initiative in this connection rendering such assistance as may be necessary or desirable.

(*c*) We would invite attention to the evidence given before the Industrial Commission (presided over by Sir Thomas Holland) regarding the inauguration of a Country Clearing for India.

(*d*) With regard to Indian personnel, the Indian Institute of Bankers, which has our substantial support, is doing much good work; we consider that Government should continue to support the Indian Institute of Bankers.

No. 5.

Statement of evidence submitted by Babu Satgur Das, B.A., LL.B., Agent. Benares Bank, Ltd., Muzaffarpur.

OPINION ON NEGOTIABLE INSTRUMENTS ACT AMENDMENT BILL.

Before the Bombay ruling the practice among bankers was to pay to bearer on presentation, cheques expressed to be so payable on the face of them, without examining endorsements on the back. The ruling makes it incumbent upon bankers to examine the back of all such cheques for endorsements which may have the effect of converting a bearer into an order cheque notwithstanding that the same still is expressed to be payable to bearer on the face of it.

Banks have hitherto followed the practice, which is supported by English decisions, of accepting as an order cheque, a cheque originally expressed on the face as 'bearer' but altered by any person whosoever into 'order' not minding whether such an alteration has been attested or not.

It is further a banking practice, when a bearer cheque is discounted to an unknown party to ask him to get it endorsed by a known party and hitherto the law provides that such endorsements impose a liability on the endorsers. This enables an unknown party to negotiate cheques, provided they are endorsed by known parties to give them better credit.

The proposed bill for amending the Indian Negotiable Instruments Act should only restore the position upset by the Bombay ruling. The amending bill as drafted also seeks :—

1. To limit the power to alter 'bearer' to 'order' on the face of the cheque to the drawer of the cheque.
2. To relieve of all liability the endorsers of a bearer cheque.

The first unduly restricts the right of holders to protect themselves against theft, conversion, etc. The English practice is preferable.

The second prevents negotiation of bearer cheques by holders who are not well known.

The views expressed above cover provisions of the law as applied to cheques and I am not in a position to advise about vernacular customary bills. If the whole law regarding Negotiable Instruments is to be revised, further suggestions can be submitted.

BANK RATE AND CURRENCY POLICY.

So long as the Imperial Bank of India rate for discounting inland bills ranges between 4 per cent. to 6 per cent. it does not arouse much suspicion, but when the rate is raised to 7 per cent. its effects are more felt and its justification doubted. It is asserted that generally the rise is not for reasons of monetary conditions or available monies (which is also artificially contracted) but for reasons of enforcing the monetary policy of the Treasury which is carried out by (1) contractions of currency, (2) increase in the Imperial Bank rate, (3) Sale of Treasury Bills. Recently, currency was further contracted by 3 crores (total deflation exceeding 15 crores) and at the same time the Imperial Bank rate raised to 7 per cent. from 5 per cent., after a brief halt at 6 per cent., especially when the country at the

time was entering the busy season. For four months, exchange despite all such attempts, did not go beyond 1s. 5d. Call-money was available at 2 per cent., and cash resources 30 crores; also trade demand less by 2½ crores. When the Bank of England rate was raised last year, Imperial Bank rate went up to 8 per cent. in sympathy. Among the justifications for this rise it was said that the exchange banks were withdrawing money from their investments in India and from the Imperial Bank at 7 per cent. to reduce their overdrafts with their head offices at Home over which they had to pay high rate of interest, *i.e.*, say 5 per cent.! The Bank of England rate is at present at a low level at 3½ per cent., but the Imperial Bank rate continues at 7 per cent.

Out of the total import of about a crore of jute bales, about 60 lacs are imported by Indian merchants. The Europeans are able to get assistance from the Imperial Bank by hypothecating the stock of jute lying with them in their mofussil godowns. The rate of other banks, who accommodate the Indian merchants, has to depend on the Imperial Bank rate and it is generally 1 per cent. to 2 per cent. higher. It is thus very detrimental to the country's trade if the Imperial Bank rate is raised for reasons other than monetary conditions.

The issue of long and short term treasury bills at attractive rates tends to attract capital out of commerce. In view of very long return (exceeding 6 per cent.) obtainable on treasury bills, it is hardly a matter of surprise that 'gilt edged' show no improvement and bankers are writing off depreciation on their securities. The issue of the recent sterling loan at the favourable term was another set back in this respect. The effect is far reaching. Deposits are withdrawn from bankers and banks have to borrow at high rates against Government securities or are forced to sell them at low rates.

The Finance Member has repeatedly asserted that the ratio will remain at what it has been once fixed finally, and we may add, at any cost to the country. It is, therefore, very necessary, that the transition period, which has been extended very indefinitely, as was apprehended when the ratio was fixed at that higher rate, would be cut short, since no change in the rate can now be expected.

The trouble that the Government is experiencing in maintaining this ratio evidences that it is not the natural ratio. If it is so, the rate of exchange by greater imports or otherwise tends to 1s. 4d. India's rupee obligations in England are met at the higher rate which means that the difference of two pence is met by the Indian Government which recovers it in the form of higher taxes. To the Indian, imported British goods appear to be cheaper, though in fact he pays the difference in another form. The effect is that India's total purchases increase which must be liquidated by greater volume of export of raw materials at unfavourable rates, *i.e.*, the barter terms of trade are modified in favour of Great Britain.

Government has to build up sterling securities by a slow and steady process from sale proceeds of silver, which has meant further depreciation in the intrinsic value of the inconvertible token coin of British India and also in the silver hoardings of the India's millions who had escaped the disaster through which their richer brethren passed when the value of the sovereign was drastically fixed at 10 rupees at the recommendation of the Babington Smith Committee.

Gold exchange standards, stabilized exchanges, currencies managed by discount rates, often fail to face long run problems and are not adequate

enough to withstand trade depressions and fluctuations in the price of silver. The gold price of silver, it will be remembered, was 60*d*., in 1872, 27*d*. in 1914, 89*d*. during War, 30*d*. in 1923 and it is 19*d*. to the oz. now. For a time pegging of the exchange may be successful; but a permanently stabilized rate of exchange is unintelligible to the practical economist. At the time the Royal Commission on Indian Currency and Finance recommended 1/6*d*. ratio, they must have thought that it was a very temporary expedient.

India should have the gold standard currency which will give greater credit to Indian currency and artificial exchange question will be settled of itself. Foreign trade will no longer remain speculative, as it would not depend on gold price of silver (which is even lower to-day than was before the War), or on the efficiency of the Government manipulation of the currency. Where a country returns to a full gold standard after a period of temporary suspension of gold payments, the effect is all to the good. It will also decrease the habit of hoarding in gold and let it free for other purposes. Value of gold and silver, in terms of other commodities, has depreciated. A gold currency will bring more purchasing power. The great merit of a gold standard is that the unit of currency is equally valueable whether as coin or melted down. Generally speaking, it cannot be manipulated by Government. The introduction of effective gold standard does not imply immediate and total conversion of the existing token currency into gold. For her requirement India has considerable resources in the shape of gold bullion and securities.

THE IMPERIAL BANK OF INDIA, THE SO-CALLED BANKERS' BANK, A GREAT HOAX.

I do not know if any of the functions of the Imperial Bank of India entitle it to be called a 'Bankers' Bank. They have advertised themselves as 'Bankers to the Government of India' and the credulous people of India have been believing that it is a State Bank. From the amount of support that it is getting from the Government it would not be far wrong to call it a State Bank. A Bankers' Bank is another advertisement to expand the credit of the Imperial Bank that has been forced upon it by others! And indeed the Imperial Bank of India is acting as the clearing bank at different places.

So far as is in my knowledge only one special facility is given by Imperial Bank to other Indian Banks. And that is in the matter of Telegraphic Transfers. They charge 1/16 per cent. from the public and in special cases 1/32 per cent. from banks. Telegraphic Transfers through Imperial Bank at 1/32 per cent. can be arranged between places where the other bank has branches. So that if a joint stock bank has, say two branches, Imperial Bank would sell T. T.'s to it at 1/32 per cent. for those two places only. I do not think this is any concession worth the name. Against this one facility, it will be of interest to note, what other things the Imperial Bank would not do for other banks which it would only be too glad to do for the public. Imperial Bank would not open accounts of any banks at any place where that other bank has no branches. If the branch of that other bank is in mofussil the local branch there of the Imperial Bank would make no advances to the former by way of overdraft or otherwise, even against Government securities. Not only this but even deposit, if made in silver coins, will not be accepted on any one day over a particular amount in the branch's account.

With the heavy balance of the Government that is at its command, and the duties that it has undertaken on its shoulders on account of the transfer of Government Treasury work to the Imperial Bank, wherever it has branches, it should be incumbent upon the Imperial Bank to allow at least the following benefits to other banks to enable them to partake to an extent of the favouritism that the Government has for the Imperial Bank:—

1. It should sell Telegraphic Transfers at very low rates for any place in India.
2. It should allow overdraft freely against Government securities or against such securities, against which it is allowed to invest monies under the Act, and at bank rate.
3. It should collect cheques on its other branches free of all charges. It may be added here that the interest for the period of transit would be a net gain to Imperial Bank and there will be no extra expense on postage.
4. If possible, it should rediscount hundies to the banks drawn and accepted by parties to whom credit is allowed by the Imperial Bank.
5. It should allow interest on current deposits and accept silver currency to any extent.
6. It should act as Agent of other banks who would furnish securities with the Head Office of Imperial Bank and be allowed to draw drafts on the latter's branches.
7. It should publish its method of organisation and management as also the forms and books in use for the benefit of Indian joint stock banks who have not perfected in this important respect. Most of the failures are due to want of proper management or on account of the difficulty in tiding over temporary monetary stringency.

It is said that great restrictions have been put on Imperial Bank which is allowed to do only certain kind of business and as such it does not compete directly with other joint stock banks. It is not allowed to make any advances for more than 6 months, but it gets over this difficulty by renewing its advances every six months. Further, it advances monies against its own shares, which advances it must be treating as unsecured. Indian States, local bodies, schools, etc., get instructions to transfer their accounts to Imperial Bank from other banks.

It has also been said to the credit of Imperial Bank that it has reduced rates of interest. It is true, rate of interest has been reduced. But let us see who have benefited by this reduction. Its rate of advance is 1 per cent. to 2 per cent. higher in the mofussils. And its advances are mostly to business people, Europeans generally, and against liquid assets. These people hold such securities as they can easily turn into cash. It is the Indian agriculturist who wants money at low rates. He has not the securities of the kind which the Imperial Bank would accept. He may be accommodated by joint stock banks and co-operative banks. The return on Government securities and P. O. Cash Certificates is very high; though in these there is experienced some difficulty about endorsements and in getting refund of Income-tax. But Government papers, purchased through post office, carry no Income-tax. Co-operative banks

and joint stock banks have, therefore, to allow attractive rates on deposits. They are thus not in a position to advance money at low rates. The Imperial Bank, thus get all first class securities and first class parties. If a joint stock bank opens a new branch at a place where there is no branch of the Imperial Bank, the latter follows it there.

It would be necessary here to digress a little to discuss the position of the agriculturist. He is generally illiterate, and cannot derive any good from the Pusa Agricultural Institute, where education is imparted in English. He generally owns small plot of lands in which modern methods cannot be applied. Properties under the Hindu Law and especially under the Mohammedan Law of inheritance are sub-divided very considerably. As the Law stands at present landed properties do not turn out in the long run to be good securities though they seemingly are the best.

Some provision should be made to accommodate the petty and big landlords. The Imperial Bank makes advances against standing crops, but it has not expanded this business. The landlords have at present to depend on monsoons. Some plots require draining, and at other places irrigation will improve matters considerably. Government should lend its aid in this matter or the Imperial Bank should take up this business, as also the business of financing Indian industries.

ABOUT MORTGAGE CASES.

There is some difference in the conduct of civil cases in Bihar and the United Provinces. Rules of Civil Procedure are altogether different.

In loans against mortgage of landed properties the securities cannot be sold unless a suit is filed. After a suit is instituted a date for hearing is fixed. The defendant is allowed to postpone the hearing from time to time on various pretexts—Court is also relieved to an extent of present work and earns more stamp duty. In most cases, unless suit is dismissed for default or decided *ex parte*, the actual hearing of the case does not take place for several months. Even when a case is postponed for want of time—which is also very common—the courts make sure that both the parties to the suit are present through their pleaders which becomes very hard on the litigants as on many occasions they come with witnesses. Subsequent dates of hearing are also postponed on various accounts and a suit is rarely decided before a year is out. As the cases are not taken up serially and subsequent dates are noted by the Peshkars who some time write orders on petitions to be signed by Court, the former wield great influence. So is also the position of the Court chaprasi who serves summons and files service of Dakhaldahani without which cases cannot proceed.

The defendant's object is served in two ways. Firstly, that he expects that he will not have to pay *pendente lite* interest and the rate of interest will be reduced to six per cent. and secondly, that as he has no ready money to pay the plaintiff creditor, he wants to get time to raise such money, the properties at stake being generally of considerably more value than what he actually owes to the plaintiffs. Sometimes his object is merely to harass the creditor. This means heavy and unnecessary expense to the litigants. The defendant remains in possession of the land in mortgage suits and collects rents from which he defrays the expenses of the case. He, therefore, in fact loses very little: for were the suit to be decided earlier, the creditor who would purchase the lands in satisfaction of the decree would be entitled to the rents. In fact, the mortgagor

defrays whole or part of the expenses of law suits from the monies to which the mortgagee would have been entitled.

It is when a suit is decreed, say in about a year, that the real difficulty of the defendant begins. The Court generally allow easy terms of payment to the judgment debtor. Sometimes the period of payment extends to a year or more. Judgment debtor, as is very natural to him, sleeps over this period, and when on default the decree holder brings execution proceedings, the judgment debtor on various pretexts, which the court allows, puts off execution until the expiry of the period of grace originally allowed by court. The defendant has several loopholes to delay execution. Instead of taking all objections at once, objections after objections are filed, one after the other as they fail, under different sections of the Civil Procedure Code. As the dates of hearing are fixed at long intervals considerable period elapses before the execution case is actually taken up. Sometimes the same objection which had once been dismissed is filed to be ultimately dismissed again as *Res Judicata* unless the plaintiffs fail to bring the point to the notice of the court who should take drastic actions against such objections. At last the property is put to sale and again the defendant is allowed a year or so to pay up the decretal money before the sale would be confirmed. On the expiry of the period the defendant can prolong the period by about another six months before the sale is made absolute. All this time the defendant is in possession of the lands and is collecting rents from tenants. The sale purchaser is in most cases the decree holder himself and in some cases a benamidar of the judgment debtor or another interested party. In the end the creditor applies for possession. The judgment debtor can put all sorts of obstructions in this matter. One after the other he sets up many interested parties who frivolously file objections which the sale purchaser has to contest. When every such miscellaneous objection cases fails, the judgment debtor or other interested parties can file frivolous regular suits based on the same facts which have already been decided or on other frivolous grounds. It is when the decree holder wins at every stage and also from the appellate courts that he really becomes the owner of the lands. Sometimes stubborn judgment debtors do not give possession to the sale purchaser or dispossess him and thus obtain the privileges which the law attaches to possession. The tenants also take the side of their old landlords and collection of rents becomes almost impossible or involves the sale purchase into fresh and numerous rent suits; and he is also shouldered with the payments of Government revenue and other rates from an early stage with no corresponding receipts from the lands.

As will be obvious from this, the completion of the realisation of a mortgage transaction by suit takes something from four to five years. In some cases, the period is less and in others even more.

Under such circumstances from the creditor's view point, a mortgage transaction should not pay. But it very often happens that the mortgaged properties are of considerably higher value than at which they are sold in court sales. If the banker is prepared to do Zamindari work so long as he is not able to find a suitable purchaser for the lands, such a transaction pays in very many cases in spite of the fact, that the process is very tedious and extends over a long period. A mortgage bank, therefore, shall have to keep a separate establishment for this purpose.

Apparently before such an institution can be successful in Bihar, the rules of Civil Procedure should be revised on the lines as are in vogue in

the United Provinces, as adapted to lands under Permanent Settlement; or some other simpler summary procedure should be adopted. A ***pendente lite*** Receiver should be appointed in every case prayed for. The English practice of mortgage by conditional sale, should also be recognised and sale (if not foreclosure also) should be possible without compulsorily going to court. To further protect their interests, banks may take up the management of the Zamindari so far as is possible under their supervision or at least the payment of Government revenue, Malikana rents, cesses, etc.

They must also satisfy themselves that the mortgagor's title is clean and that there are no previous charges on the lands or house properties. Registration of mortgages or sales can take place at various places and sometimes dakhilkharij (*i.e.*, mutation) in Register D is not completed and there are also other ways of defrauding. It is, therefore, difficult for banks to be fully satisfied that they are getting clean lands and the process would be very expensive. Whenever a sale deed or any transfer deed or a mortgage deed or bandobast, etc., is sent for registration, the Registration Office should insist upon the necessary fees to be deposited for mutation on Register D in case of Mash Milkiat; while such a transaction in case of Kasht should be noted on the Khetians (Record of Rights). This part of the work should not be left to the parties and must be obligatory on the Registration Offices. The creditor invariably sees the Register D and the Khetians. If the above are noted on them, inspection of indices in the Registration Offices will not be necessary.

Banks should have the option to redeem all previous mortgages, upon whom it should be obligatory to disclose all their dues, for which there is a charge on the lands.

No. 6§

Statement of evidence submitted by Mr. S. N. Pochkhanawala, Managing Director of the Central Bank of India, Limited.

In our memorandum to the Bombay Provincial Banking Enquiry Committee, we have described at length the unhealthy competition of the Imperial Bank of India and the foreign exchange banks with indigenous joint stock banks. In this memorandum we shall, *inter alia*, explain how banking interests in the country could be linked together by a co-ordinate system.

Industrial Banks.

It is scarcely possible for India to compete successfully in industrial pursuits with the other countries due to the advantages enjoyed by the latter. For want of (1) sufficient capital, (2) skilled labour, (3) technical knowledge, (4) practical experience, and (5) Government support, India has so far suffered in various industries, except textile and jute, which could be said to have had a fairly prosperous career hitherto owing to the natural advantages in their favour. The textile industry, however, at present is on the verge of ruin for several reasons well-known to Government. The other industries like cement and iron have managed to survive, thanks to the relief afforded to them by Government through tariff and protective duties. Attempts have been made from time to time by enthusiastic pioneers to start several industries in India, where raw products are available in plenty for being converted into finished articles, but in few cases have the results been encouraging, and during the last few years, huge capital has been lost through the failure of several such industrial enterprises. These failures have necessarily scared away public support and influenced the withdrawal of capital and the curtailment of credit with banks. Of the major industries, except the textile industry of Bombay, there is hardly an industry worth the name which can be said to be suffering from want of finance. So far the Imperial, the foreign exchange and the indigenous banks had supported and financed the textile and jute industries, and clean facilities used to be freely given on the strength of business prospects and credit of the borrowers. Of late the textile industry of Bombay has been suffering for want of adequate financial support from banks and those in charge of these concerns find it difficult to raise money on their credit as they used to be able to do in the past.

The smaller industries get at present hardly any support from banks, because without technical knowledge of the industries, banks do not consider it safe to interest themselves in the financing of such industries. Another consideration in industrial finance is the period of the advance, and banks, as a rule, would not encourage advances that are likely to continue for over 12 months. The constitution of the Imperial Bank does not allow advances to run over 6 months, and thus it is never possible for them to give credit facilities to industrial concerns for fixed capital expenditure or block. The only help they at times can offer is for current requirements against stock of raw materials or finished products.

If the banking system of India is to continue in its present form without a Reserve Bank, we think an Industrial Bank with Government support and

having its Head Office at Bombay or Calcutta should be established on the following lines :—

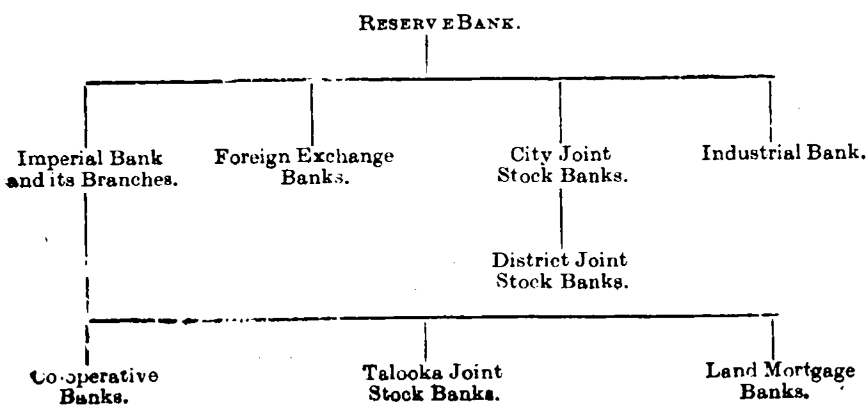
> Its capital may be fixed at Rs. 50 lacs to start with, which may be gradually increased if required, and Government should guarantee interest at $5\frac{1}{2}$ to 6 per cent. per annum on the capital of the bank, such rate to be subject to revision every five years. This bank should employ Government technical experts and should do no other business except financing of industries in their primary stages and till such time as such concerns can acquire for themselves credit sufficient enough to induce commercial banks of the country to grant them clean or secured facilities. This bank should not open current accounts, but it may accept deposits for periods not shorter than 3 years. It should not do commercial banking. One or two representatives of Government should be appointed as Directors of the Bank with the right to veto any loan if both agree.

It would be desirable to place some kind of restrictions on the activities of such an industrial banking institution on the following lines :—

1. Not more than 25 per cent. of its paid-up capital to be invested in a particular industry.
2. Monies to any industry to be advanced only after its prospects are declared to be favourable by the Government or the bank's technical expert.
3. Applications for loans to be entertained only after 50 per cent. of the required capital of the company is subscribed and paid-up by the public.
4. The bank should satisfy itself that the management of the industrial concern is in competent hands having enough experience in the line.

In case a co-ordinate banking system with a Reserve Bank is established in India, we do not think a very large capital will be needed for an industrial bank, as the existing banks—the Imperial, foreign exchange and the Indian joint stock banks—would be able to meet the financial demands of the industries by virtue of the increased facilities they would be getting from the Reserve Bank through the rediscounting of bills.

In our opinion the banking system in India should be as shown below :—



We have dealt in our memorandum to the Bombay Provincial Banking Enquiry Committee with the functions and business of the Imperial and foreign exchange banks and we shall deal now with the Reserve Bank and the joint stock banks.

The principal defects in the present banking system in India are :—

1. Absence of responsible National Conservatories of the money market like the Bank of England, or the Bank of France, or the Federal Reserve Bank.
2. Inability of indigenous banks to increase their lending power to meet seasonal or unusual demands.
3. Absence of media between banks for mutual co-operation and joint action in case of necessity.
4. A single office, namely, the Finance Membership to the Government of India dominating the money market, invested as it is with supreme powers like the contraction of the currency and the issue of Treasury Bills.
5. Government influence in governing the Bank Rate due to the dependence of the Imperial Bank on Government balances.
6. Wide and frequent fluctuations in the Bank Rates.
7. Marked disparity between the Bank Rate and the money market rate.

What we require is a banking system to remedy the above defects and to provide the entire country with a reservoir of credit to which our commerce, industry and agriculture could look for succour.

In every country 'credit' is a certain index of prosperity, and almost all civilized countries in the world, to conserve and foster credit, have established for themselves Central or Reserve Banks that serve the purpose of distributing and enhancing their wealth and prosperity, and we are of opinion that the establishment of a Central or Reserve Bank in India is a matter of urgent necessity.

CONSTITUTION OF A RESERVE BANK.

What is essential for the success of a Central Bank is a constitution that will (1) meet the varying and peculiar conditions of the country, and (2) satisfy the requirements of its commercial, industrial and agricultural interests.

For the purpose of giving every province a suitable opportunity to develop its trade and encourage and promote indigenous banking, India should be divided into 5 or 6 districts with due regard to their commerce and business. We suggest that the Reserve Bank be established with its head office at Bombay and branches at Calcutta, Madras, Rangoon and Lahore. From the constitution of the Reserve Bank of India, detailed hereafter, it will be noticed that offices at Calcutta, Madras. Rangoon and Lahore will practically be independent, managing their own affairs, without head office control, the only difference being that the latter, unlike the branches, would be invested with Note-issue powers.

The following would be the advantages of dividing the country into separate independent districts :—

1. The trade requirements and finance of each place would be looked after conveniently by the district office.
2. The branches of foreign and local banks in each district would find it convenient to place their reserves with their district office, and to have their bills rediscounted.

3. The people of each district would get an opportunity of subscribing to the capital of the Reserve Bank, to be issued in debentures.

4. A Board of Directors, comprising of local members, could be formed at each centre, and they being acquainted with business conditions of the district would be able to fully provide for its requirements.

5. Government Treasury work would be greatly simplified by opening sub-branches of the Reserve Bank in each district under the control of the Reserve Bank office of the district.

6. Though the offices of the Reserve Bank at Bombay, Calcutta, Madras, Rangoon and Lahore would work independently, they would be under the control of a supreme body called the "Central Board" at Bombay, Delhi or Simla. This would ensure unity of policy in business and would make all the offices of the Reserve Bank work harmoniously and uniformly as one single entity. The several offices would be so connected with one another as to give the best possible results by having an easy access to the surplus funds of one when required by the other, rendering possible stable rate of interest throughout the country.

Debentures as Capital.

We are of opinion that for several reasons the proposed Reserve Bank should have no capital raised on joint stock principle. It should not be a joint stock bank brought into being through public or Government subscriptions, but it should be an independent concern, free from Government control or the influence of any corporate body. At the same time it should, from the beginning of its career, have a big capital, say at least for the first ten years, to command public confidence, to gain control of the finance market, and to give elasticity to credit facilities, whenever required. As this capital, however, should not be a permanent burden on the Institution, we would suggest that:—

1. The Reserve Bank should raise Rs. 10 crores (Rs. 5 crores to start with and the balance when required) by issuing debentures (on its credit and goodwill) guaranteed by Government.

2. These debentures should be in 100 rupee denomination, so as to give the rich and the poor equal chances of subscribing.

3. They should be bearer debentures to avoid the trouble of transfer.

4. They should be made repayable within 15 years of their issue at the option of the Bank.

5. A redemption fund should be created out of the profits of the bank for the repayment of the debentures.

6. The debentures should carry interest at the rate of 5½ or 6 per cent. per annum, free of Income-tax (according to monetary conditions at the time of issue).

7. For the purpose of the distribution of capital certain proportions should be allotted to the different branches of the Reserve Bank, commensurate with their commercial importance and the subscribing capacity of their population. This would give an equal opportunity to all the parts of the country to invest in the Reserve Bank capital.

8. The debentures should be allotted to the highest bidders, and subscriptions thereto should be invited through tenders. The premia received should go to meet the preliminary expenses, or form the nucleus of a Reserve Fund.
9. The Controller of the Currency and the Chief Governor of the Reserve Bank, Bombay, to be nominated as the trustees of the debenture-holders.

We need not explain at length the advantages of such an issue, as it would fulfil the conditions necessary to meet the requirements of creating the capital, and its distribution throughout the country would, unlike a joint stock bank, keep this institution free from the control of shareholders and directors.

CONTROL.

The management is the most important and delicate part of the bank's constitution and requires, therefore, very careful attention. The success of the Reserve Bank would depend on its management, and it is incumbent hence to subject it to a control, which should be effective without being obstructive, and which could efficiently guide the working of the Bank. In this connection, we would suggest a constitution similar to the Federal Reserve System with such changes as may be necessary in view of prevalent conditions.

At the head of the Reserve Bank we would suggest the formation of a Central Board (1) to look after the working of the system, (2) to determine its general policy, (3) to remain in touch with the market conditions of the country, (4) to control Note-issue and dictate the currency policy, (5) to interpret by regulations and rulings the various provisions of the bill, (6) to fix the rate of discount from time to time, and (7) to exercise disciplinary control over the directors and officers of the Reserve Bank. This Board should be given certain powers so as to enable them to exercise effective supervision and control over all the offices of the Reserve Bank. Not being responsible for their internal management, it need have no controlling voice in business affairs, like the passing of credit applications, etc. This should be entirely left to the directors and the management. It should be empowered to suggest to the legislatures, amendments that may be necessary for the better working of the Reserve Bank on the experience gained, to inspect and examine at its discretion the books and the internal affairs of the Reserve Bank and its branches and of each member bank, and to call for such statements and reports as it might deem necessary.

The Chairman of the Central Board should submit annually a full report on the operations of the Reserve Bank and its branches to the Legislative Assembly and the Council of State, and these reports should be available to the public in the form of Government publications.

PERSONNEL OF THE CENTRAL BOARD.

Great care should be exercised in the selection of the members of the Central Board as the working of the Reserve Bank and its branches would greatly depend on them. The Board should be an active body of paid experts, who are not engaged in business, who are always available to attend regularly meetings of the Board, and who are absolutely unhampered by political motives or influence. No member of a Legislative body or director of a bank should be a member of this Board. The Central Board should consist of 9 members,

including two Government representatives, namely, (1) The Finance Member, or the Controller of the Currency, and (2) Member for Commerce and Industry, or any other officer appointed by Government. The remaining seven members should be appointed by the Governor-General-in-Council at the recommendation of the two Houses. These 7 members should be selected from the districts formed for the purpose of the Reserve Bank—not more than two to belong to any one district, and at least 4 of the 7 to be Indians. They should be active representatives of the financial, agricultural, industrial, and commercial interests of the country, and at least two of them should possess practical experience in banking and finance of at least 15 to 20 years. The inclusion of two such members is certainly necessary for the first Board. Later on, this number might be reduced to one. Each member to hold office for five years, but the terms of the first members to be as follows :—

2 for 3 years,

2 for 4 years, and

3 for 5 years.

Each member should be paid a monthly salary of Rs. 2,500 to Rs. 3,000, or such remuneration as may be fixed by the Governor-General-in-Council. In order to procure men with the requisite acumen and qualifications, it is desirable that they should be offered handsome salaries.

NOMINATION BY THE LEGISLATURES.

It is possible that a great controversy may arise regarding the appointment of the first members of the Central Board, but the following course would probably meet the demands of the Government as well as those of the public.

A Committee should be formed comprising of 5 members of the Council of State, 5 members of the Legislative Assembly, the Finance Member and the Controller of the Currency. The Governor-General-in-Council should recommend 10 names, six Indian and four European, fulfilling the conditions aforesaid and the Committee to select at least 5, out of these ten, and nominate them as the first members of the Central Board. In case fewer than seven are approved, the remaining might be selected by the Governor-General-in-Council, subject to the consent of the Committee. The Board to select their own Chairman and have a paid Secretary on a salary of Rs. 1,000—1,500. The future vacancies on the Central Board to be filled by the Governor-General-in-Council with the advice of the Central Board and the consent of the two Houses.

The organization of the Central Board of the Reserve Bank on the above lines is bound to produce the best results and create confidence by its efficient and independent working.

DIRECTORS OF RESERVE BANK BRANCHES.

Each office of the Reserve Bank would work under the supervision and control of its own Board of Directors, who will perform the duties usually expected of directors of banks. They would, subject to the rules and orders of the Central Board, administer the affairs of the institution under their control fairly and without being in favour of or against any applicant bank. Each Board would be directly responsible to the Central Board and should make a report on its working to the Central Board every six months.

The Boards of Directors of each district should consist of 7 members, excluding the Governor and the Deputy Governor. At least four of the members on each board should be Indians. These members should be appointed by the Central Board, keeping in mind the following qualifications required of each member :—

1. He should be a resident of the district for at least 5 years.
2. He should be a person actively engaged in his province in finance, commerce, agriculture or some other industrial pursuit, or a retired experienced man with the above qualifications.
3. No director, officer or employee of a bank would be eligible for appointment as a director on the Board.

SELECTION OF RIGHT MEN.

The Central Board might adopt the following procedure to appoint the first members on the Reserve Bank District Boards of Directors :—

The principal Chambers or Associations of Commerce of each district, where the Reserve Bank opens its principal offices, should be invited to suggest to the Central Board the ten best names of persons in their districts with the necessary qualifications. It need not be incumbent on the Central Board to select the seven members of each Board from the names thus suggested, but the list would serve to guide them in the selection of right men in each district and would greatly facilitate their work. All future vacancies to be filled up by the Central Board independently. The period of appointment of each member to be fixed as follows :—

2 for 2 years,

2 for 3 years,

2 for 4 years, and

1 for 5 years,

subject to re-appointment for every three years. Each director would be entitled to such remuneration as may be fixed by the Central Board for every meeting of the Board attended by him.

CHIEF GOVERNOR OF THE RESERVE BANK.

As the work of Note-issue would be done by the Bombay office and the foreign exchange and the currency policy of the Bank would be directed and controlled by them, the services of a special officer conversant with this class of work would have to be requisitioned. He might be called the "Chief Governor" of the Bank and would be under the direct control of the Central Board and carry out their instructions. He might be invited to attend the Central Board meetings when necessary, but would have no vote. He would be the chief officer of the Reserve Bank with his headquarters at Bombay. The first appointment should be made by the GovernorGeneral-in-Council with the consent of the two Houses on such salary as might be fixed by them. He would be entitled to attend the District Board meetings, but would have no vote.

The first appointment of the Governors and the Deputy Governors, *i.e.*, the principal officers of the Reserve Bank at Bombay and other centres, should be made by Government in consultation with the Central Board, but subsequent

appointments might be left to the Central Board, due consideration being given to the rights of deserving Indians with a long banking experience. The Governors and the Deputy Governors of the Reserve Bank should be persons of tested practical banking experience of at least 12 to 15 years.

The salary of the Governor and the Deputy Governor of the Reserve Bank offices in different districts would vary according to the importance of business in each district.

The other staff at Reserve Bank offices should be appointed by the respective District Boards of Directors.

Financial Self-Government.

In the above scheme the real power of administration of the Reserve Bank of India is vested not in one hand, but in the hands of the Central Board which would be a representative body composed of independent, experienced businessmen with knowledge of finance and trade. They would be paid for the work and would be expected to do their duties to the best of their abilities. Free as they would be from Government and other political influences, they would be able to work independently in the best interests of the country. Earning profits for the bank would be no consideration for them. Nor would they have to adhere to any policy dictated to them by Government or any corporate body. Their only business and duty would be to manage the finances of the country in the best interests of its commerce and its people, and to supervise the general working of the Reserve Bank. At the same time, as they would have to report annually to the two Houses on the general working of the Bank, they would be directly responsible to the country for the management of its currency and finance. Their policy would be open to criticism, their actions could be discussed without impairing the credit of the institution or without revealing the business transactions of the Bank. The success of the Reserve Bank system would entirely depend on the selection of the Central Board, which would be formed by the people through their representatives in the two Houses. This would be Self-Government in the finance and currency of the country.

With the establishment of the Reserve Bank, the Imperial Bank of India must cease to function in its present capacity of depository of Government funds, and all special privileges at present enjoyed by it must necessarily end. It should continue business like other joint stock banks and foreign exchange banks, without being invested with special privileges and advantages. The very principle of a Central Bank requires that member banks should be treated on a fair and equal footing, without offering special facilities to any of its members.

The above is only a rough skeleton of a Central Bank for India, and we have dealt with only questions of capital and control, these having been the chief points of contention in the last Reserve Bank bill which Government had to withdraw in face of strong opposition.

City Joint Stock Banks.

In the first place we suggest that only public joint stock companies, established in India with the aim of carrying on legitimate banking business,

including borrowing and lending and opening of current accounts, should be allowed to make use of the word " BANK ".

To render possible the working of joint stock banks in India on sound lines, we feel that besides the usual formalities required to be fulfilled under the Indian Companies Act, a public joint stock company calling itself a bank should be subjected to the following restrictions :—

1. It should not begin work unless 25 per cent. of its subscribed capital is paid up.
2. Besides the names of the directors and other requisite information to be supplied to the Registrar of Companies, it should submit the name of its manager. This officer should possess at least 10 years' practical banking experience or he should be a Certificated Associate of the Institute of Bankers, London or India, or holding recognized diplomas in banking and finance, with 5 years' practical banking experience, in some good bank after the passing of the examination.
3. For several reasons it is not desirable that bank accounts should be examined by special Government examiners, but firms of certified auditors of long standing and experience should be given special licenses or certificates to act as auditors to banks. These auditors should be given the right of examining banks' accounts not only once a year, but they should have access to the banks' books at all times.
4. For the safe working of a bank and for the safety of the depositors we would suggest that during the first 3 to 5 years of a bank's existence it should not be allowed to lend on clean credit more than its paid-up capital, and its total advances against immovable properties should also not exceed its paid-up capital.
5. It is advisable that joint stock banks in India should issue monthly statements of their liabilities and assets in a simplified form.

BANKERS' ASSOCIATION.

To bring the banks in large cities in closer touch with one another and to remove racial prejudices and jealousies, Bankers' Associations should be formed by the Imperial Bank of India in the principal cities on the lines of the Exchange Banks Association. Many healthy reforms could be introduced through the Association, and concerted action taken for the mutual benefit of banks and their clients. For instance, banks in India have no source of information to determine the credit of their clients except through bazar reports. If a bank insists on a client producing his balance sheet to determine his financial position, he resents the idea and goes to another bank, who receives him with open arms without insisting on the information, it being not the practice with banks in India to insist on such information. Banks in Europe and America would not deal with a client unless he discloses his position to them. We need not dwell at length on the advantages of this system, which are obvious. There are innumerable cases of merchants and shroffs who do not draw up their balance-sheets for years, and many of them are unaware of their own position till they get swamped with their commitments and their credit is ruined. It is in the interests of banks and the merchants that every client asking for an advance from a bank should disclose his correct financial position to his

banker. Concerted action by banks in this direction would go a long way to improve and extend credit where needed, and merchants, shroffs and traders would be induced to keep proper books of accounts in their own interests.

The opening and closing hours of banks in Bombay also vary. Some open for business at 10-30 and some at 11. The closing hours even of banks are not the same, some closing at 3-30, some at 4 and some at 4-30.

CLEARING HOUSES.

The Imperial Bank conducts the Bankers' Clearing Houses in the principal cities of India and the head of the Imperial Bank at each centre works as the President of the respective Bankers' Clearing House.

The Clearing House at Bombay only keeps records of the total weekly amounts of cheques passed through the clearings, and these figures are being published in the papers. Such records, however, are not supplied direct to members, and even in the case of past records they are merely referred to the old files of the papers wherein the relative figures have appeared. The Bombay Bankers' Clearing House maintains no record of the total number of cheques presented by respective banks through clearings each day. We are informed that this cannot be done because "of the expenditure of time and trouble involved". We, however, consider that these statistics should essentially be maintained, and the question of time and trouble would not exist if the respective banks are required to state the number of cheques along with the total amounts of cheques presented by them at the clearing house.

These and other statistics relating to banks in India published by the Department of Commerce, Intelligence and Statistics, stale as they are by two years, show the interest taken by Government and the Clearing Houses in the banking statistics of the country.

COST OF MANAGEMENT.

It is difficult to determine the correct ratio of expenditure in the management of banks from the published balance-sheets, and an off-hand comparison between banks in this respect by simply working out the ratios from the figures of the respective balance-sheets would be erroneous. Besides, capital, reserve, deposits and total liabilities, the nature and the volume of a bank's business and the proportion of expenses at its branches to the general expenses, and the earning capacity of the branches play an important part in the expenditure of banks. Even a publication like the *Statist* in its banking supplement arrives at the ratio of profits to total liabilities by taking not the profits of the period, but the profit balance in the balance-sheet. This profit balance is sometimes more or less than the periodical profits of the bank, as this figure is shown in some balance-sheets after the *ad-interim* dividend has been paid and includes besides the balance of profits carried forward from the last account, and the appropriation made from the profit figures.

A bank without any branches or having just a few is always able to show a smaller expenditure ratio than a bank with a number of branches. A layman, ordinarily, would in his superficial judgment give credit to the former for smaller expenditure and condemn the latter for the high ratio of expenditure in comparison to its net profits.

The figures in the latest issue of the *Statist* give the following percentage of profit balances to total liabilities of indigenous joint stock banks having more than 5 but not less than 20 Branches :—

Banks.	Profit Balance.	Per cent. of total liability.
The Allahabad Bank, Ltd.	4,19,000	·3
The Central Bank of India, Ltd.	8,67,259	·3
The Punjab National Bank, Ltd. . . .	2,81,886	·4
The Imperial Bank of India, Ltd. . . .	61,21,072	·6

The actual profit of the Allahabad Bank was Rs. 5,78,000, of the Central Bank, Rs. 15,53,000 and of the Punjab National Bank, Rs. 2,54,000.

The percentages of joint stock banks mentioned above are lower than the profits percentages of some of the exchange banks doing business in India and the Imperial Bank of India, and they strengthen the view expressed in our memorandum to the Bombay Provincial Banking Enquiry Committee that branches of Indian joint stock banks have to suffer a good deal through the competition of the Imperial Bank, and many of these branches in consequence work at a loss, and are a serious drain on the profits as a whole of the institutions. Indigenous banks with branches in different parts of the country are undoubtedly rendering service to trade and commerce, and if necessary protection is not afforded to them in good time, the banking interests of the country are bound to suffer.

Form "G".

The Form 'G' which appears to have been copied from Form 'C' of the English Companies Consolidated Act, 1908, has to be exhibited by all banks working in India in a conspicuous place for the information of the public. It appears to have been intended to exhibit the general financial position of the bank, but the Form 'G' in its present form has completely failed in its object.

In 1923, we had drawn the attention of the Bombay Chamber of Commerce through Messrs. A. F. Ferguson and Company, Chartered Accountants, and the former had addressed a letter to the Government of India on 22nd September, 1923, pointing out the apparent deficiencies in this Form, but nothing has yet been done in the matter by Government. Instead of exhibiting the Form 'G' it would be advisable to exhibit the yearly balance-sheets, drawn up in Form 'F'. This Form 'F', *i.e.*, balance-sheets of banks, would give clearer and better information than hitherto done by Form 'G'. The depositors and the public are entitled to the same information as the shareholders.

Form 'G', as at present required to be filled in under Section 136 of the Indian Companies Act, is very defective, badly worded, and hardly meets the requirements of the banking concern.

It makes no mention about the bank's liabilities on current deposits, and savings bank accounts, fixed deposits, etc., nor does it require particulars of such important items as loans, cash credit, secured and unsecured advances, banks premises, cash in hand, etc.

Form 'G' in its present form hardly serves the purpose for which it is meant and needs to be revised at the earliest opportunity. Forms 'F' and 'G', we suggest, should be revised on the lines shown in Appendix I and II.

District Joint Stock Banks.

Instead of opening branches of city joint stock banks in the districts, efforts should be made to open district joint stock banks under the supervision and guidance of city joint stock banks. District joint stock banks should be started with capital in accordance with the importance of the district and its banking requirements. At least one-fourth of its capital should be subscribed by the parent institution and the balance of the capital should be taken up by the district. It should have a Board of Directors of its own consisting of prominent merchants and sowcars of the district, and the parent bank should supply its management and guide them in their working. The district bank should work independently with such control of policy as may be mutually agreed upon between the parent bank and the district bank. The city bank and the district bank being two separate entities would greatly facilitate the discounting and re-discounting business of demand and usance hundis. Besides this advantage, the district joint stock bank would be able to attract deposits and savings bank accounts, the promoters and directors being men on the spot and known to the district. It could satisfy the wants of its merchants through its parent institution and would be in a better position to determine the credit of the commercial community of the district. The public would consider such a bank, backed up by a large joint stock bank, floated with their own capital, managed by their own men, as their own institution, and would naturally feel inclined to give it preference over others. The parent bank would have in it a suitable medium through which the trade of the district could with safety be financed.

The district joint stock banks and the branches of the Imperial Bank of India in the district should come in touch with co-operative banks and co-operative credit societies in the different talukas of the district, and through them should lend monies on agricultural products and raw materials. The produce from the villages is brought down to talukas for disposal. Storing facilities, therefore, should be provided by opening warehouses in such talukas. The co-operative banks thereby could be sufficiently funded to finance their taluka through the help of the district banks, who in their turn would have the security of the co-operative banks and their clients. The co-operative credit movement will be thus backed up by greater resources. The district Bank would also be able to do business direct in the talukas at the recommendation of the co-operative banks and the co-operative credit societies and by advancing against goods stored in their warehouses it would find a safe outlet for lending monies against proper security. The inhabitants of the taluka would also come in touch with district joint stock banks and would be induced to deal with them. In big talukas the district joint stock banks and/or the Imperial Bank might open branches if the volume of their business warrants such a course.

The co-operative banks and the co-operative credit societies would borrow monies from the district bank or the Imperial Bank against their holding in bills or against securities pledged to them. The district bank could rediscount these Bills with the City Bank and the City Bank might in its turn rediscount them when necessary with the Reserve Bank. The sowcars of the talukas would be forced to reduce their rates of interest in view of the operaitons of the district bank in their talukas through the co-operative banks

and the co-operative societies, and they would also find it to their interest to come into closer contact with the district bank and/or the Imperial Bank and borrow monies on their guarantee to expand their field of operations in their respective talukas. Banking interests of the country would thus be linked with one another in the financing of agriculture and trade.

Foreign Exchange Banks.

For the safety of Indian depositors and to exercise some control over the activities of foreign exchange banks towards the Indian public and the indigenous banks, it is desirable that British and other foreign banks, having already their offices in India or opening their offices in India, should apply for a license before they could commence banking business in India. The Finance Department of the Government of India may be authorised to issue such a license after scrutinizing the bank's capital and credit and satisfying itself regarding the due fulfilment of the following provisions :—

1. No foreign exchange bank having a capital and reserve of less than £1,000,000 should be given a license.
2. First class indigenous banks with a paid-up capital of Rs. 50 lacs and over should be made members of any Association that the foreign exchange banks may establish in the country, irrespective of their nature of business local or foreign.
3. They should publish yearly balance-sheets in respect of their working in India.
4. They should not be allowed to borrow in India more than 25 per cent. of their paid-up capital and reserve, but under no circumstances should the borrowing of each bank exceed its total advances in India.
5. They should accept policies of approved Indian insurance companies.

It is interesting to note that in 1918, 10 exchange banks were functioning in India. The total capital, reserve and rest of these banks amounted to £39,449,000 and they had Indian deposits amounting to £46,392,000 (*i.e.*, more than their capital, reserve and rest co bined) and cash balances amounting to £11,381,000. In 1927, 18 exchange banks with a capital, reserve and rest amounting to £181,000,000 were working in India and had Indian deposits with them amounting to £51,647,000 and cash balances amounting to £6,098,000 according to the latest number of the "Statistical Tables relating to banks in India". For reasons best known to the Director-General of Commercial Intelligence and Statistics the rupee equivalent of the deposits in India with the exchange banks is converted in the said tables at 1*s*. 3*d*. on page 1. At 1*s*. 6*d*., the present rate of exchange, these deposits would amount to £61,976,400, the rupee equivalent being Rs. 82,63,52,000.

In India, 29 indigenous joint stock banks, each with a paid-up capital and reserve of Rs. 5 lacs and over, are doing banking business, and they have between themselves total deposits for Rs. 61 crores. There are 48 Indian joint stock banks with a paid-up capital and reserve each of over Rs. 1 lac but less than Rs. 5 lacs, and they have between themselves deposits for Rs. 3½ crores. Out of the 29 banks of the former class, two-thirds of the total

deposits of Indian joint stock banks and about one-half of their total capital and reserve are with four of them, as shown below :—

Name of Bank.	Year when Established.	Nature of Management.	Capital and Reserve.	Total Deposits.
				1927
			In Lacs.	In Lacs.
The Central Bank of India, Ltd.	1911	Indian .	280	1,536
The Bank of India, Ltd. . .	1906	European .	192	1,030
The Allahabad Bank, Ltd. .	1856	European .	85	1,027
The Punjab National Bank, Ltd	1895	Indian .	57	732
			614	4,325

The remaining 73 Indian joint stock banks have between themselves about Rs. 22 crores in deposits.

The success attained by an Indian-managed bank like the Central is perhaps the reason why it is made the subject of all sorts of rumours, jealousies and court cases. Every effort is made in different quarters to bring down its deposits and full advantage taken of the defective law to impair its credit.

The European import and export houses and the European mercantile community throughout India deal almost exclusively with exchange banks and with banks under European management. They do not entrust their monies to Indian-managed banks, and very often some of them discourage even their clients from doing so.

In table No. 4 on page 6 of the same Statistical Tables giving the comparative deposit figures of all banks, the sterling equivalent of Indian deposits with foreign exchange banks, *viz.*, £51,647,000 is converted into rupees at 1*s*. 6*d*., and shown as Rs. 68 crores (instead of 83 crores) against Imperial Bank deposits of 79 crores and joint stock banks deposits of 64 crores. From table No. 4 it is clear that the combined deposit figures of all the banks working in India in 1927, *viz.*, Rs. 212 crores was in excess by 1 crore only, when compared with the same figures for 1919, *viz.*, Rs. 211 crores. This is the progress made by the country in the last 9 years in deposits with banks! If bank deposits figures are any index of the prosperity of a country, these figures show how the country has suffered from commercial and industrial reverses in the last decade.

It is desirable that Indian deposit figures of every foreign exchange bank working in India should be shown separately in the Statistical Tables, as the deposit figures of Indian banks are shown. We cannot understand why this information is withheld in the Tables, when the Statistical department had these figures with them while making up the total Indian Deposits of foreign exchange banks.

Perhaps India is the only country in the world where foreign banks attract enough deposits to earn profits for their shareholders and their respective countries, without employing a material portion of their own funds. From Indian deposits amounting to over Rs. 83 crores, it will be interesting to know how far the 18 exchange banks have, in the last ten years, helped individually and collectively the Indian Government, Provincial Governments, municipalities and other public bodies by subscribing to their loans. These statistics when compared with the subscriptions of individual indigenous joint stock banks would show what services some of these Banks have rendered to

the country and Government, with smaller resources than those of the foreign exchange banks and in spite of the disadvantages under which they have laboured.

The total subscription of the Central Bank of India, Ltd., to loans issued by the Government of India and other public bodies between 1917 and 1929 amounts to over Rs. 15 crores—a record which should make any indigenous bank proud of its having done its 'bit' and not simply worked as a machine to earn profits.

FOREIGN TRADE.

It must be admitted that indigenous banks in India at present cannot finance the country's foreign trade, and it cannot do without the agency of foreign exchange banks. After the establishment of the Reserve Bank, the Imperial Bank would be free to do foreign exchange business and with resources in the shape of capital, reserve and deposits at its command, it would be able to finance at least some part of the import and export trade in competition with foreign exchange banks. This would lessen to some extent their competition with local banks. For the joint stock banks to take a prominent part in the export and import trade of the country would be still a matter of years, for much will depend :—

(1) on how far Government will give them due protection against unfair competition ; and

(2) on the encouragement and sympathy from the public.

To uplift and improve the conditions of indigenous banks in India, it is desirable that they should meet with as little competition as possible from the Imperial Bank and the foreign banks. In no country in the world do we find foreign exchange banks doing business in such large numbers as in India. In England, America, France, Germany, Italy, Belgium and Austria, the proportion of foreign banks to indigenous banks is almost negligible. Their deposit figures can stand no comparison with those of indigenous banks. In India, foreign exchange banks have become a power. They dictate their own terms to the Indian foreign trade and are able to exert their influence to a considerable extent in local trade also. Even some of the indigenous joint stock banks under European management keep themselves aloof in inter-bank business with indigenous banks under Indian management. The indigenous banks under Indian management are looked down upon with prejudice. Most of the foreign exchange banks do receive deposits from Indian indigenous banks, but they would not lend them a rupee without security, though amongst themselves they do large lending business on credit. They combine at every opportunity even against first class indigenous banks, and by withdrawing at the spread of any and every rumour credit facilities in the matter of purchasing of drafts and telegraphic transfers, they jeopardize the position of the indigenous banks and lower their prestige in the eyes of the investing public and the brokers. The Government of India, having no control over them, cannot redress the evil done. In no country in the world would such behaviour on the part of foreign banks against indigenous institutions be tolerated and for the self-respect of the country it is necessary that no foreign banks should be allowed to carry on their business in India without a license. This would stop, at least to some extent, the objectionable treatment meted out to the Indian clientele and the indigenous banks by some of the foreign banks. That foreign banks should look upon indigenous banks as their rivals is but natural, but any attempt on their part at unhealthy competition

or any endeavour to oust them from the field through unfair means should be deprecated.

We have already emphasized in our memorandum to the Bombay Provincial Banking Enquiry Committee the necessity of protecting sound indigenous banks against unjust attacks in law courts owing to the defective law of the land and would once again urge that the future growth and prosperity of Indian indigenous banks must depend on the removal of such discrepancies in the law, and we have already suggested in the said memorandum meausres how these could be done.

Banking Education.

In the principal cities of India there have been established schools and colleges for the study of banking and other commercial subjects. Students preparing for the examination of the Institute of Bankers, London, are given facilities to get practical training in local banks as paid or unpaid apprentices and a goodly number of Certificated Associates of the Institute of Bankers, London, are now working in several banks in India.

The Indian Institute of Bankers has been established last year on the lines of the London Institute of Bankers, and its working so far gives hope for its future success.

Amongst indigenous banks the Central Bank of India, Bombay, has a library of its own for the use of its staff, and lectures on banking subjects are being delivered from time to time. This bank used to conduct till last year classes of its own for the staff under a qualified lecturer to specially coach them up for banking examinations. In order that every member of the staff may take interest in his work and increase his efficiency and knowledge, the Central Bank publishes a monthly magazine, supplied to the members of the staff free of charge (copy attached herewith). Through these methods efforts are being made to train the bank's staff so as to attain increased efficiency and knowledge, and the results so far attained are fairly encouraging.

The Central Bank, since its inception, has been conducted by Indians alone. Its Board of Directors and Officers are all Indians. It has 22 branches all working under trained Indians, and its endeavours have always been to encourage and train Indians for senior positions in the bank.

From what we have heard of banking training received outside India, we are inclined to believe that there are better opportunities for Indians to get a sound training in India than in England. An Indian student passing the London or Indian Institute of Bankers examination, with a few years' practical training in India would prove to be more efficient in and better qualified for his work than one who works in a branch office of a London bank and returns with the idea of having received special training outside India. An Indian apprentice in an English bank can naturally not get a chance to get an insight into higher banking problems. He is more or less attached to routine work which cannot be of material assistance to him in his future career. It is our experience that theoretical study combined with practical experience alone brings about the best results.

It is desirable to send young Indians after a good training in banks in India for a practical study of International exchange and the various problems connected with currency and exchange banks abroad, if it could be arranged by Government. Students possessing high qualifications and having good practical banking experience would only be able to take real advantage of such facilities, provided they are given genuine opportunities of receiving such training. Deputing recruits of mediocre ability for training in banking outside India would serve no useful purpose.

APPENDIX I.

PROPOSED FORM "F" FOR BANKS.

LIABILITIES.	ASSETS.
Capital—	*Cash*—
AUTHORISED— Shares of Rs. each.	Cash in hand.
ISSUED & SUBSCRIBED— Shares of Rs. each.	Cash at Bankers.
PAID-UP— Shares of Rs. each.	Deposits at Call and Short Notice, Bullion on hand.
AMOUNT RECEIVED ON SHARES FORFEITED.	*Investments*—
Reserve Fund	Government Loans, War Bonds and other Gilt-edged Securities at or under Market Rate.*
Contingency Fund	Debentures & Preference Shares of Joint Stock Companies.
Deposits—	Shares in Public Companies.
Current & Savings Banks Deposits.	*Loans & Other Advances*—
Fixed Deposits including Savings Fixed Deposits.	Cash Credits, Demand Advances & Loans Bills Discounted and Purchased.
Debts due to Banks, Agents & Correspondents.	
Debts due to Banks, Agents and Correspondents secured by Bills & Investments *per contra*.	*Particulars Required by Act VII of 1913*—
Bills payable and other sums due by the Bank.	(1) Debts Considered Good and in respect of which the Bank is fully secured.
Unclaimed Dividends.	(2) Debts Considered Good secured by the personal liability of one or more parties as under :—
Rebate on Bills Discounted.	(a) Debts due on Bills Discounted.
Branch Adjustments.	(b) Debts due on joint and several Pro. Notes.
Acceptances for Customers :—As *per contra*.	(c) Debts due on temporary Overdrafts, Demand Cash Credits, Personal Security, etc.
Bills for Collection :—Bills Receivable as *per contra*.	(3) Debts due by Directors and other Officers of the Bank, without Security.
Profit & Loss Account :—	(4) Debts due by Directors of the Bank jointly with other persons.
Contingent Liabilities :—	(5) Debts due by Directors of the Bank on Securities and Considered Good.
	(6) Debts due by Joint Stock Companies guaranteed by their Agents, a Director of the Bank being a member of the firm of Agents.
	(7) Debts considered Bad or Doubtful not provided for.

*In case the market rate is less than the Book Value, both valuations should be shown.

APPENDIX I—*contd.*

Proposed Form "F" for Banks.

LIABILITIES.	ASSETS.
	Particulars Required by Act VII of 1913—contd.
	Land and Buildings.—At Cost.
	Less.—Amount provided for in previous years.
	Bank Premises.—At Cost.
	Less.—Amount already written off.
	Customers for Acceptances *per contra.*
	Bills Receivable.
	Other Assets—
	Office Furniture and Fittings.
	Less.—Amount written off for Depreciation.
	Stamps, Stationery, etc.

APPENDIX II.

PRESENT FORM "G".

The Share Capital of the Company is divided into Shares of Rs. each.
The number of Shares issued is Calls to the amount of Rs. per Share have been made under which the sum of Rs. has been received.
The Liabilities of the Bank on the 31st day of December (or 30th of June) were :—

Rs.

Debts owing to Sundry Persons by the Company—
- Under Decree . . . . . .
- On Mortgages or Bonds. . . . .
- On Notes, Bills or Hundies . . . .
- On other Contracts . . . . .
- On Estimated Liabilities . . . .

The Assets of the Company on that day were :—
- Government Securities (stating them) . . .
- Bills of Exchange, Hundies and Promissory Notes .
- Cash at the Bankers . . . . . .
- Other Securities . . . .

PROPOSED FORM "G" FOR BANKS.

1. The Share Capital of the Bank is Rs. divided into Shares of Rs each.
2. The number of Shares issued is Calls to the amount of Rs. per Share have been made under which the sum of Rs. 'has been received.
3. The Liabilities of the Bank on the were :—

Rs.

(a) On Current Accounts, Call Deposits and Savings Bank Accounts. . . . . . .
(b) Fixed Deposits . . . .
(c) Debts due to Banks, Agents and Correspondents. . . . .
(d) Debts due against part of Securities shown below . . . .
(e) Bills payable and other sums due by the Bank.
(f) Unclaimed Dividends and Rebate on Bills Discounted . . . .

4. The Assets of the Bank on that day were :—
(a) Cash in Hand . . . .
(b) Cash at Banks and Bullion on Hand . .
(c) Government Securities . . . . .
(d) Other Securities . . . .
(e) Cash Credits, Loans and Overdrafts . .
(f) Bills Discounted . . . .
(g) Bank Premises, Land and Buildings, Office Furniture, Stamps, etc. . . . .

Supplementary memorandum submitted by Mr. S. N. Pochkhanawala, Managing Director, Central Bank of India, Limited, Bombay.

In most of the joint stock companies the assets consist of (1) cash, securities, book debts, stocks, (2) land, buildings, plant and machinery.

(1) Cash, securities, book debts, stocks, etc., are called floating assets and are valued at or under market rates.

(2) Land, buildings, plant and machinery are called fixed assets and are valued at their book values, and certain depreciation is provided for every year from the surplus profits and the book value is gradually reduced without any reference to its market value. Some companies are able to reduce the values of fixed assets more rapidly than others if they are earning better profits, and some write off slowly if they are not able to show good results. When an industry is in a good position, *i.e.*, making monies, it provides for depreciation of fixed assets by setting aside big amounts from its profits, whereas in less favourable times no depreciation is provided for. There is no regular system to provide depreciation at a certain rate and there is no statutory obligation to do so, except to state perhaps that no depreciation is provided for in a particular year. For the above reasons the auditors cannot be expected to certify that the assets of the company are truly and properly valued.

Now let us see what the auditors will be required to do in case they are required to give the certificate in the form suggested. In order to value "truly and properly" the different kinds of fixed assets, they will have to employ experts in iron industry, hydro-electric, cements, textile, jute, tea, tramway, etc. One year an expert may value an asset at a certain price, another expert would value the same assets in another company at a lower or higher value. The values of fixed assets of a company will vary from year to year, the values of the company's shares will also vary on this line, and will depend not on the business profits but on the valuation each auditor places on the fixed assets from year to year, of the companies under their audit. For these reasons the proposed change is not desirable. It would do no good to anyone.

If Government were to fix certain percentages on the fixed assets, and require that the joint stock companies should provide against depreciation on these lines it would simplify the work of the auditors. It will be then their duty to see that due provision is made according to law before profits are declared. But it would be a very difficult task to fix the exact percentages, as in some cases it may be at 1 per cent., in others 5 or 10 per cent. However, if it is possible to do so with the concurrence of those engaged in pioneer industries of the country, I would support it.

It will be only after some such law on depreciation of fixed assets is passed that the auditors will be able to certify that the assets are truly and properly valued.

No. 7.

Statement of evidence submitted by Mr. Janakinath Gupta, Managing Director, Chotanagpur Banking Association, Ltd., Hazaribagh.

I.—Industrial Banks and Credit Societies for India's main industries.

1. In the Hazaribagh town there are no industries except two rice mills. The owners of these mills carry on the business out of their own funds. They do not approach the banks for funds.

There are mica and coal industries in this district, but they are far away from the town and we have had no opportunity to observe any of these industries.

It is desirable that banks should support and finance industries. But the business of the Chotanagpur Banking Association, Ltd., is not in this line. So we have very little experience of industries and cannot possibly suggest how this support can be secured. In order to support the industries, both capital outlay and current requirements are necessary, and means should be devised as to how both of these can be supplied.

It appears that more attention should be paid to the production than to import and export.

2. We have no experience of the different methods of financing and different classes of papers and documents specially used in industries.

3. We are not aware of the sources from which loans and advances are secured for the industries and at what rates of interest. The Chotanagpur Banking Association, Ltd., sometimes lends money to owners of coal lands who carry on the coal business themselves, if such owners can furnish proper and sufficient securities in landed properties (not coal lands), and the rate of interest in such cases is 12 per cent. per annum for sums of Rs. 5,000 and upwards.

4. Banks are shy to advance anything to support infant industries because of the want of sufficient and proper security. Presence of risk would necessarily enhance the rate of interest. If by legislation or otherwise the element of risk be minimised there would be no lack of capital.

Existing Banks can finance industries, provided there is greater degree of security. Infant industries of doubtful stability cannot secure loans from banks whose funds require investment. Any other new machinery for supplying these industries with funds is scarcely necessary. There may be special banks for special trades but greater degree of security will always be necessary. In any case, whether it be a special machinery brought into existence by legislation or special bank supporting special industries, the loans and advances given for capital and current requirements cannot be charitable. So there must be means or provisions (either by legislation or otherwise), that there should be greater safety for the banks and bankers making such loans and advances.

II.—Financing of foreign trade.

This Bank scarcely does any business to finance foreign trade and we think it is scarcely necessary for purely Indian banks (specially in the mofussil) to do anything for supporting foreign trade.

For want of experience we are unable to make any suggestions about several points mentioned about foreign trade.

III.—Regulation of Banking.

1. It is undeniable that there should be periodical examination of the banks' accounts. The system by which it is done at present under the Companies Act may be considered sufficient and effective and unless an auditor wilfully perverts facts and misrepresents accounts in collusion with the bank authorities there is every chance of the public and the shareholders of a bank coming to know the true state of things. The shareholders selecting and appointing a qualified, experienced accountant to audit the accounts of the bank who is to be paid by it is, we think, a wholesome system and it need not be changed.

2. There should not be any restrictions imposed on the working of a bank, the working should be left entirely with the directors of the bank, *e.g.*, the directors are to find out on what security the bank's funds are to be invested, what customers and debtors are to be dealt with and in what manner, etc., etc. There should be as few restrictions as possible on the word "bank" or its working. We think, generally speaking, unless the authorities or directors of a bank run it with a fraudulent or dishonest intention, there is absolutely no necessity of further restrictions than those imposed by the Companies Act.

3 and 4. No legislative definition of "bank" (generally) is necessary, but of special banks, *e.g.*, co-operative bank, there may be such definition for such, a bank would be created by legislation.

5. In our opinion foreign banks should have licenses to enable them to do business in India. Such licenses should be obtained from some authority appointed by Government.

6. Dishonesty and fraudulent intention of the promoters or the directors are to be guarded against. Any amendment in the Companies Act which would bring about this result is welcome.

7. It is always desirable that there should be expeditious liquidation in case of bank failures. Advance payment to the depositors would depend upon the available funds of the bank which fails.

In the case of the Alliance Bank, some other banks found that it would not be unprofitable to pay a portion of the deposit money to the depositors and accordingly part payment of the deposit money was made. But such payment cannot, in our opinion, be made compulsory on any private party or bank. If on a summary examination of accounts it is found that the depositors can be paid, Government may pay the depositors and then recoup the amount paid from the funds of the bank.

8. Generally speaking, bad and speculative investments lead to bank failures. It sometimes happens that loans are advanced to persons who have not sufficient means to repay them. It also sometimes happens that dishonest directors themselves embark on speculation and take the necessary funds from their banks.

If there be legislative safeguard against speculative investment or dishonesty, without fettering the management of the bank by the directors, such enactment would be welcome. Attempt may be made to do it by necessary amendment in the Companies Act.

9. Certainly, amalgamation or reconstruction of banks would be advantageous both for the customers of the bank as well as for the bank itself. Such a measure would be better than liquidation. There should be legislation which would make amalgamation or reconstruction easy and within reach of the bank managers and directors. Details of the scheme are to be arranged by them to the best advantage of the bank and also of the customers.

11. As far as possible security should be afforded to the depositors.

To create a special class of deposit under legislative protection may not be very advantageous.

12. Legal protection may be extended to the banks which are stable against unjust attacks. There may be a Committee of the representatives from the leading banking firms and that Committee may ascertain which banks are really stable and in sound working order and legal protection may be extended to such banks.

13. The following taxes are paid by this Bank :—

Super-tax, income-tax, fees to Government through the Registrar of Joint Stock Companies under section 249 (1) of the Companies Act, municipal taxes.

The co-operative banks have to pay municipal tax only.

IV.—Banking Education.

1 & 2. As far as we know, banking is not at present taught as a subject of study in our schools or colleges, and also there is no university examination held in this subject, nor do banks provide any facilities for the training of boys in banking business. It is desirable that we should have students who would make banking their special study, *e.g.*, graduates in banking, but the number of banks is not so large as would absorb the annual production of such graduates.

The vexed question of unemployment would shortly arise in this Bank also. Mofussil banks would, however, like to have employees who would have some knowledge of banking.

It is always found that untrained but honest managers of branch banks do their work properly and well. They pick up the necessary training, both theoretical and practical, within a very short time.

7. The so-called training imparted by indigenous bankers is very narrow and limited to the practical portion (accounting only) of the business. No education in theory of banking is imparted.

V.—Bankers' organisation and money market.

1. There may be a Bankers' Bank, *i.e.*, a bank towards the funds of which other banks would contribute. In time of stress of a bank funds may be supplied by the Bankers' Bank.

2. Generally, there should be co-operation among banks and the resources of one bank may be utilised to remove the pressure on another bank. But there should be proper security for such advance and interest should also be paid by the borrowing bank and there should be legislative protection to the bank which would make the advance.

4. We do not think that there should be any regulation of the bank rate.

8. This bank has never felt inconvenience to manage its business with the amount of its paid-up capital. If the capital be increased, the whole amount may not be utilised and in that case the rate of dividend will have to be reduced and the market value of the shares may come down. Such reductions in the dividend and the market value of the shares may not be liked by the shareholders.

No. 8.

Letter from the Managing Director, the Frontier Bank, Limited, Dera Ismail Khan.

The Central Bank of India, Limited, has shown us the courtesy by sending us copies of their memoranda to the Provincial and Central Banking Enquiry Committees. Most of the problems discussed therein affect all Indian banks, whether large or small, and we fully endorse the opinions expressed by the learned managing director of the premier Indian bank.

2. One point discussed therein is of special interest and importance to the small banks, *viz.*, protection sought against litigious shareholders. On account of personal grudge against the directors some shareholders drag their banks into law courts and in attempting to discredit their directors, they lay an axe upon the credit of the institution. The Companies Act makes no difference between banks and other companies, and no protection is given to banks and other credit institutions, where such litigations are bound to produce a disastrous effect. The Central Bank has given expression to the bad effects of criminal suits against the directors on merely technical and frivolous charges, and has sought for protection against vexatious proceedings. We fully endorse the view that legislation on the lines of the English Vexatious Indictments Act (22 and 23 Vict. Co. 17) and Costs in Criminal Cases Act of 1908 should be introduced at an early date.

3. But to our minds the greatest danger to banks from the disgruntled shareholders is the facility given to their destructive methods by section 162 (*vi*), under which an application may be filed for winding of a company on the vague ground of " a just and equitable cause ". In one of the rulings quoted under that section we have " a justifiable lack of confidence in the Management " as a good cause. Taking shelter behind this any shareholder can, with immunity, file an application. Indian banking is as yet in its infancy and market conditions are always a disturbing element, and it is easy to criticise the working of even the most competently and honestly managed banks and to make it a question of lack of confidence in the management.

4. The panic created by such an application is a thousand times greater than mere criminal suits against the directors on technical grounds. During the long period that must elapse between the filing in of an application and its ultimate rejection on merits, irreparable damage may be done to the credit of a bank. The depositing public in India is specially nervous and get easily panic stricken. When there is a question of winding up, it can take no risk whatsoever, and so even thoroughly sound and profitable concerns, may be forced to close their doors on account of this extra panicky condition.

5. Hence clause (*iv*) of section 162 should, in our opinion, be so amended as to exclude banks and other credit institutions from its operation. If necessary, the interests of the shareholders may be protected by some constructive way, whereby the business policy of the management may be controlled. At present it is merely an instrument for a discontented small minority to coerce and blackmail a majority, and to do incalculable harm to the depositing public and the progress and prosperity of Indian banking.

No. 9.

Statement of evidence submitted by the Secretary, Puri bank, Limited, Puri.

I.—Industrial Banks and credit facilities for India's main industries.

Q. 1.—We helped the proprietors of two match manufactories. One took Rs. 2,500 on a mortgage bond and the other Rs. 5,000 on a simple bond, after commencing manufactures at an interest of Rs. 12 p. c. p. a. Both failed, and the money is still unrealised.

Two brick manufacturers are helped with money according to their requirements during the manufacturing season at an interest of Rs. 12 p. c. p. a. They repay the loan after selling bricks.

Q. 3.—Our rates of interest and securities are as follows:—

Upto Rs. 500 Rs. $22\frac{1}{2}$ p. c. p. a. on hand notes and simple bonds.

Upto Rs. 500 Rs. $18\frac{3}{4}$ p. c. p. a. on mortgage bonds.

Upto Rs. 1,100 Rs. 21 p. c. p. a. on hand notes and simple bonds.

Upto Rs. 1,100 Rs. $18\frac{3}{4}$ p. c. p. a. on mortgage bonds.

Upto Rs. 5,000 Rs. 18 p. c. p. a. on all bonds.

Above Rs. 5,000 Rs. 16 p. c. p. a. on all bonds.

Discount at Rs. 10 p. c. is allowed on interests paid monthly on all bonds.

At present on account of the courts not allowing interest over Rs. $18\frac{3}{4}$ p. c. p. a. we have to reduce the rate. When filing suits on old bonds interest at the rate of Rs. $18\frac{3}{4}$ p. c. p. a. is charged.

On customer's account which means frequent advances and refunds, secured or unsecured for industries such as manufacture of bricks, matches, etc., and for contractors' business or trade and on loans against fixed deposits upto any amount, interest is charged at the rate of Rs. 12 p. c. p. a., but no discount at Rs. 10 p. c. is allowed on such interests.

Classes of securities.—Building, homestead, garden, agricultural land and goods in shops are accepted as securities.

Loans are also issued on personal sureties.

Q. 4.—If some banks were reluctant to finance industries freely, it was because of the failure of several large and small industries, owing to lack of support by the public.

The existing banks can very well finance industries on security or guarantee of success. It is not necessary to establish any special trade or industrial banks.

For remittance of money to Presidency banks or banks at trade centres, banks may be supplied with sufficient quantities of Government currency notes from the Government Treasury, according to their requirements or the benefit of Remittance Transfer Receipts, as is given to co-operative banks, may be extended to joint stock banks.

III.—Regulation of Banking.

Q. 1.—For various reasons it is not desirable that accounts of joint stock banks should be examined by Government examiners.

As at present, Government certified auditors appointed by the banks, an adequate remuneration may be allowed to audit their accounts once or twice a year, as may be necessary.

Q. 2.—No restrictions on the business of existing banks are desirable, but new banks should not be allowed to begin business until 25 per cent. of their subscribed capital is paid up.

Q. 3.—Only the public joint stock companies should be allowed to use the word "bank" and not private companies and associations which at present call themselves banks.

Q. 13.—We pay only the income-tax at 18 pies per rupee which may be reduced to at least 12 pies, on profits actually realised and not on accrued profits.

No. 10.

Letter from the Honorary Secretary, All-India Co-operative Institutes' Association, Bombay, dated 8th April 1930.

I have the honour to forward herewith the written evidence of the All-India Co-operative Institutes' Association for submission to the Indian Central Banking Enquiry Committee.

I. Industrial Banks and Credit Facilities for India's Main Industries.

The most important of industries in India are undoubtedly agriculture and industries connected with it. We do not propose here to refer to the textile industries or to the iron and steel industries, but we shall confine our remarks to those industries connected with the working up of agricultural produce and giving it the form as closely approximating as possible to the form required by the consumers. In this category, we include flour mills, rice mills, oil mills, sugar factories and cotton gins and presses. These are important industries directly affecting the welfare of the bulk of India's population which depends on agriculture.

It has been admitted generally that co-operation is the most useful and suitable method in all cases where the interests of agriculturists are concerned, and we are of opinion that the type of the industries referred to above by us can best be developed by co-operative methods. When organised on capitalistic lines as at present, these lend themselves to easy exploitation of those who raise the produce. Advanced agriculture implies not merely raising the produce but also working it up further and further so as to market it in the form as near as possible to the needs of consumers. The agriculturist cannot rest content with producing merely sugarcane, nor with merely producing *gur*. He should produce refined sugar in order to realise the full benefits of his labours. It would be similarly not enough for him to produce various oil seeds, such as linseed, groundnut and *til*; he must extract oil out of them and refine it. It would not be a satisfactory state of affairs if he merely raised wheat and left the milling to others. To enable agriculturists to embark on these higher developments of the agricultural industry, there is, we are convinced, no method so suitable indeed as the co-operative method.

We, therefore, earnestly recommend that steps be taken to encourage co-operative developments in these directions. The fixed capital expenditure of such concerns should be obtained from members themselves, who would ordinarily in the co-operative scheme of things be agriculturists or agricultural co-operative societies. These, however, being poor, the necessary funds required would not be available unless in the initial stages the membership be left open to individuals, agriculturists and non-agriculturists alike. These industries are the natural developments of co-operative marketing and it is these co-operative marketing societies in a district that could be expected to become members of the industrial societies. In Gujarat, for instance, the successful development of cotton sale societies has led to co-operative cotton ginneries. We are strongly of opinion, therefore, that Government should encourage by all means in their power the rapid development of co-operative marketing societies and the formation of co-operative industrial societies for working up the agricultural produce. The working capital for such industrial enterprises can be easily obtained

from co-operative banks, District, Central and the Provincial, which have established enough credit to command the necessary resources. It might be necessary perhaps, when such developments have progressed to some extent that these co-operative banks might need some assistance from Government for the finance of such industrial enterprises, and we are of opinion that in that eventuality, a part at least of the amounts collected by Government through the Postal Savings Banks in rural areas should be released and made available for such purposes through co-operative banks.

III. Regulation of Banking.

3. *The use of the word 'bank'.*

The word 'bank' has come to acquire a connotation implying a public institution doing business on a fairly large scale, and it is desirable in our opinion to restrict the use of the word 'bank', so as to retain this connotation. We would not be in favour of a private firm doing banking business, styling itself a *bank*, unless its accounts are audited periodically, unless such audited statements are available for inspection to the public and unless the operations of the firm are on a fairly big scale.

We would, however, confine our remarks to co-operative institutions doing banking business. We are strongly of opinion that co-operative institutions doing banking business in India should not be allowed to style themselves as co-operative banks unless their paid-up share capital is at least Rs. 50,000 and should not be allowed to start their business unless 25 per cent. at least of the share capital is paid up. Under the co-operative system, a society cannot hold as deposits, loans, etc., amounts greater than eight times the paid-up share capital. The conditions suggested by us above, therefore, imply that a co-operative society, to call itself a bank must at least have a working capital of something like four to five lacs of rupees. Publicity, audit, inspection, etc., in the case of co-operative societies have already been provided for under Co-operative Law, and we suggest that the restrictions suggested by us in the use of the word 'bank' should be given effect to by suitable amendments in the All-India Co-operative Act II of 1912, which still is in force in most of the Provinces of India as also in the Co-operative Societies' Acts passed in the provinces as in Bombay and Burma.

4. *Sphere of Operations of Banks.*

Here also we propose to confine our remarks to co-operative banks and to speak of the other banks only so far as they affect the working of these banks. In our opinion, a bank is a bank whether co-operative or otherwise and any restrictions imposed upon it would be untenable unless warranted by expediency or by special considerations. The co-operative banks should, therefore, be allowed without any restrictions to undertake all kinds of banking business that may legitimately be undertaken by any other kind of banks. A recent circular of the Government of India does not look upon inland exchange business as a legitimate business for co-operative banks, on the ground apparently that these banks should not undertake any business with the general public which might bring them profit. We agree that the motto of the co-operative movement is Service, not Profits. But this does not mean that all business which brings profit is not legitimate for a co-operative society, but only that its profits, under

the co-operative scheme of distribution thereof, do not lead to high dividends to shareholders, but to rebates to borrowers, and as such are not profits in the capitalistic sense of the word at all. Inland exchange business is, we strongly hold, a perfectly legitimate type of business for co-operative banks and the local population is very well served by the facility which this business when undertaken by co-operative banks confers upon it. Government should, therefore, now cease to look upon this business with disfavour.

Another restriction that the Co-operative Societies' Acts impose on co-operative banks consists in prohibiting loans by them to non-members except, it is so provided, with the general or special sanction of the Registrar. The theory of co-operative economics does not restrict dealings of co-operative organisations with non-members, and when permission could be given under the Co-operative Societies' Acts by the Registrar, this fact is by implication accepted. We do realise that dealings with non-members might bring a small co-operative credit society in troubles, in as much as small concerns mostly managed by honorary agencies could not be expected to be very efficiently run. But when, by virtue of its large scale of operations, the society is accepted as a bank, there is no reason why this official control should be imposed on it and why it should not be allowed to carry on, in the interests of its members, banking business with non-members, like all other joint-stock banking institutions which carry on business with whomsoever they please, without any outside control. A co-operative bank should be, we hold, treated as any other bank and allowed to undertake all kinds of banking business, with all kinds of persons, whether members and shareholders or not, like all other banks. It might be argued perhaps that co-operative institutions receive many privileges and concessions which other banks do not receive and if they require spoon feeding in the form of these privileges and concessions, they should not grumble if some restrictions intended to safeguard their transactions have to be imposed on them. We are of opinion, however, that there is not much force in this argument. If banking facilities are to be extended so as to reach the masses in the country and banking institutions encouraged, and if we accept that from the point of view of the agriculturist, a co-operative bank is much better than any joint stock bank, privileges and concessions stand revealed as so much encouragement to them till they could gather strength and experience. While, therefore, favouring the removal of this restriction on dealings with non-members, we would press for the retention of the privileges and concessions till the working capital of a co-operative bank reaches a respectable figure, say to two crores or more. In this case, one is assured of efficient management and economics associated with large scale operations, and at this stage concessions and privileges are no longer necessary. Co-operative societies with a working capital of under five lacs, which in a way is equivalent to a paid-up share capital of Rs. 50,000, we would not call banks and we agree that in their case, restrictions on loans to non-members are very desirable, co-operative societies with a working capital of more than five lacs, but less than two crores, would be banks, but these need support and encouragement, while societies with more than two crores as working capital can stand on their own legs and can or should be able to do without special privileges and concessions.

We further feel that the principle that agricultural finance can best be organised on co-operative lines should be definitely accepted. Indeed, in view of the dense ignorance of the agriculturists, and their illiteracy no

other agency than their own can serve them properly and equitably. It is not in human nature, for outsiders, whether individuals or institutions, not to take advantage of the very great difference in the level of intelligence between them and the agriculturists, not to follow a policy of self-aggrandisement at their cost. The agricultural community can, in our opinion, thus be served best only by their own agency. The plea of efficiency of the joint stock banks or the appeal to sentiment on behalf of the sowcar, by recalling his past services cannot stand, since even if the sowcar were the angel his supporters paint him to be, the dictum that good government is no substitute for self-government holds good no less in financial matters than in other fields. The whole problem of the extension of banking facilities should not be conceived from the point of view of the existing banks but from that of the bulk of India's population which is rural and engaged in agricultural pursuits. How the Imperial or other joint stock bank or the indigenous banker—the shroff or the sowcar—can best develop and extend its or his services, is not the problem; how the different types of people in this vast land can best be provided with banking facilities is the real problem. And, when we think in this way, we cannot but come to the conclusion that for the rapid extension of banking facilities in rural areas at any rate, the best way is to encourage the rapid development of co-operative banking. Towards this end, it would be necessary primarily to reserve this field of finance to these co-operative banks. Agricultural finance must be the domain of co-operative banks, and the Imperial Bank, the joint stock banks, the exchange banks, and any other bank for the matter of that should not as a rule be permitted to enter this field. Denmark, for example, having realised that distribution was best only, when organised on co-operative lines, forthwith passed legislation prohibiting the opening of any retail shop within twenty miles of a town, unless it was organised as a co-operative store. We see no reason why Government should not similarly accept the principle that agricultural finance is the reserved area for co-operative banking and legislate that there should be no joint stock banks or their branches in towns with a population of less than 25,000. We earnestly recommend that action be taken by Government on these lines, for we are convinced that in co-operative banking lies the hope of rapid extension of banking facilities in rural areas.

11. *Different types of deposits.*

Banks at present accept three kinds of deposits, current, savings and fixed. The first are useful to the merchant who has to make payments pretty often in the course of business; the third are useful to the banks which thus get funds for investment as the second loans; savings deposits, are important from the point of view of comparatively smaller men, giving them the facility to invest their savings. We are of opinion that encouragement should be given to this type of deposits and that encouragement should take the shape of facilities for withdrawal We see no reason indeed why savings banks accounts should not be allowed to be operated by cheques as in the case of current accounts. We recognise that deposits in savings banks, earning a rate of interest higher than that allowed on current deposits, are not intended to be utilised for commercial purposes; they are essentially savings and withdrawals must be consequently restricted. Restrictions, however, should not mean difficulties, delay or inconvenience and we would suggest that these deposits should be operated by cheques. We favour restrictions being imposed on the number and amount of payments to be made by cheques and we feel that our purpose

would be served if the amount at any one time withdrawn by cheque from a savings bank account did not exceed Rs. 100 and if the number of such cheques per month did not exceed ten. This secures that the middle class man who, for no business purposes but just to escape the tardy and inconvenient procedure in case of withdrawals, opens a current account at present, would be encouraged to open a savings bank account instead and earn a better rate of interest and yet get the facility of withdrawing any sum upto Rs. 1,000 by cheques in the course of one month. Several banks impose limits for the maximum amount of deposits that could be made in the course of the year as also on the total amount that could be accumulated in any one such account. We think, it is desirable to remove these limits altogether; we do not understand why the amount of savings should thus be sought to be restricted, particularly when under the present system, the limits could be evaded easily enough by opening more than one account in the same bank, one in one's own name, another in the name of himself and wife, a third in the name of himself and son, and so forth.

As regards protection of such deposits, we suggest that in the event of liquidation of a banking institution, though deposits have a priority over share capital, savings bank deposits should be given priority over all other kinds of deposits, in as much as they represent the savings of the smaller middle class men, while the current deposits represent the cash available for commercial people to carry on their business operations and fixed deposits represent an effort to earn higher interest, when a substantial sum has been collected in the savings bank or when a sufficiently large sum is available at a time for investment. This priority will, we are persuaded, with the facilities for operation by cheques proposed by us, give the necessary encouragement for the investment of savings.

13. *Concessions to Co-operative Banks.*

In the course of our remarks on the sphere of different banks, we have expressed our opinion in favour of assisting co-operative banks by giving them privileges and concessions. Without unnecessary argument, we desire to suggest that co-operative banks should be exempted not only from the ordinary income-tax, as at present, but also from the super-tax, and that they should be exempted not only from the income-tax on their profits for the year but also on the interest they might earn on their investments in Government and Trust Act securities.

IV. Banking Education.

Facilities for banking education.

It is only fairly recently that the subject of banking education has begun to receive attention at the hands of educationists in the country. The British Institute of Bankers used to hold examinations in banking, but there were practically no facilities for training excepting such as were afforded by private commercial training institutions such as Davar's College of Commerce. Even commercial education in general suffered from this neglect, and was left to such private institutions which served the needs of those who appeared at the examinations of the London Chamber of Commerce and such other British bodies. It is only since

October 1913 that commercial education can be said to have been taken in hand, when the Bombay University instituted the Degree of Bachelor of Commerce and the Government of Bombay established the Sydenham College of Commerce and Economics. At this college, students receive training in subjects of commercial and economic interest and the importance of banking is recognised, for apart from compulsory papers in elementary banking and currency, advanced banking forms one of the optional subjects for the degree of B. Com. Other provinces of India, one by one, have been following Bombay's lead and during these 16 years the Universities of Calcutta, Lucknow, Allahabad and the Punjab have instituted the Bachelor of Commerce degree and arrangements have been made in some of the educational institutions there to prepare students for the degree courses. At Lahore, the Hailey College of Commerce and Economics has recently been established, thanks to the generosity of Sir Ganga Ram, more or less on the lines of the Sydenham College. At all these examinations and institutions, the importance of banking has definitely been recognised.

The Indian Merchants' Chamber of Bombay and the Government of Bombay perceived the need for providing for banking education of a lower grade, chiefly meant for those who aspired to get employment as clerks in banks. The Government of Bombay in 1926 started two commercial secondary schools attached more or less to the ordinary secondary schools at Bombay and Broach, instituted the Government Commercial and Clerical Certificate Examination, and recognised several of the private institutions, like Davar's College, to prepare students for that examination. Almost simultaneously, the Indian Merchants' Chamber, Bombay, instituted the examination for a Diploma in Commerce. The former—the Government examination—is a sort of a commercial matriculation examination, while the latter—the Chamber's Diploma—is an effort to replace the London Chamber's certificate and is a more popular examination. In both these examinations, banking is a subject of importance. Very recently the Indian Institute of Bankers has come into existence and this Institute held its first examination—2 parts—in 1929. These examinations, it is hoped, will be more and more important and will replace to a large extent the British Institute of Bankers' Examinations.

So far as co-operative banking is concerned, there are no regular schools, or colleges where training in this type of banking is imparted; in the course of lectures on banking in general, something is being said about co-operative banking. The Provincial Co-operative Institute, Bombay, however, holds Training Classes for the Bank Managers' Diploma Examination, and has established three co-operative schools in Gujarat, Maharashtra and the Karnatak where among other courses, there are special courses for training up Central Co-operative Banks' Inspectors, Urban Co-operative Banks' Secretaries, and Rural Credit Societies' Secretaries; and certificates are issued to the candidates who pass the examinations conducted by that body. In Madras, also arrangements have been made for co-operative training, and other provinces in India too are evolving similar schemes for their own workers

As regards co-ordination between the training institutions and the banks, it may be said that so far as we are aware, there is no such co-ordination. The banks and the commerce college or schools do not co-ordinate their efforts except in the case of co-operative banks, which are members of the Provincial Co-operative Institutes, and which actively assist in the practical training of students. The Institute of Bankers in India has on its Board,

a representative of commercial education, though it would be better to have also the Principal or the Professor of Banking of the Sydenham College of Commerce and Economics as an *ex-officio* member of the Board. We are of opinion that tho Indian Institute of Bankers should remove this anomaly and have on its board representatives of the Provincial Co-operative Institute, Bombay, the Provincial Co-operative Bank, Bombay, the Sydenham College of Commerce and Economics, besides representatives of the commercial banks and of private institutions for commercial education. The Provincial Co-operative Bank and the Provincial Co-operative Institute, Bombay, have always tried to bring about a co-ordination of effort between them and the Sydenham College, the former having the Principal on its Directorate and the latter having one of its professors as Chairman of its Central Education Board.

We further feel that it would be very desirable if at the examinations of the Indian Institute of Bankers, there were to be a separate paper on Co-operative Banking, and if for the examination for the degree of B. Com., Co-operation were added as a separate paper, or if that were not possible, if of the three papers on Advanced Banking (Optional), one were definitely assigned to Co-operative Banking.

2. *Practical Training by banks and recruitment of staff.*

So far as we are aware, banks in India offer no facilities for training in banking business at all, except in the case of co-operative banks, as pointed out above in answer to Q. IV. (1), which by arrangement with the Provincial Co-operative Institutes, enable the boys to get the practical training required before the Co-operative Bank Managers' Diploma could be granted to them.

As regards recruitment of staff, there seems to be no definite system adopted by any bank or class of banks. The co-operative banks generally prefer B. Com.'s or G. D. A.'s as also those who have passed the co-operative examinations held by the Co-operative Institutes. The Imperial Bank reserves higher appointments usually to Europeans recruited abroad, but educated Indians are now being taken up as probationers, some of whom are placed in charge of its small branches. In making selection for these appointments as probationers also, there is no definite system, and while the B. Com. is supposed to get preference, in practice he who can get himself recommended by persons of influence has a greater chance of being appointed to the post irrespective of his degree or his special subject. The Indian joint stock banks also do not seem to have any system of recruitment based on the merit of candidates. Influence and chance play as important a part as if not more than merit. The exchange banks are non-Indian banks and Indians have no chances naturally in them excepting for clerical appointments.

We are of opinion, that so far as co-operative banks are concerned, appointments must be made on the result of a competitive examination to be specially held for the purpose once a year, by the All-India Co-operative Institutes' Association at different centres, arrangements for practical training of the selected candidates being made in co-ordination with the Registrars of Co-operative Societies, and the Provincial co-operative banks. For the joint stock banks, passing the examinations of the Indian Institute of Bankers should be made a condition precedent to appointment, a B. Com. with Advanced Banking as his optional subject being exempted from this obligation.

We would point out the great desirability, in this connection, of the Government of India giving a substantial aid to the All-India Co-operative Institutes' Association for establishing an All-India Co-operative College, which would issue diplomas and certificates for co-operative banking, urban and central, co-operative accountancy, co-operative salesmanship, and so forth on the results of examinations, on the board of which would be represented the Provincial Co-operative Banks' Association and the Co-operative Departments of the various Provinces. Appointments to the co-operative departments and to superior appointments in co-operative banks and sales' societies should be made from amongst those who possess these diplomas and certificates.

3. *Theoretical and Practical Teaching.*

At present, except in the case of the co-operative banks referred to above, the teaching is all theoretical. Those who, however, appear at the Indian Institute of Bankers' examination are employees of banks and they thus ~~have and~~ are in a position to get practical experience of the working of banks. We suggest that universities should, in consultation with banks, arrive at an arrangement by which candidates for the degree of B. Com. would receive practical training for a period of two years in some approved bank before he gets his degree. For a Government certified auditor, three years' apprenticeship is made obligatory and there is no reason why there should not be a two years' apprenticeship obligatory for those who desire to obtain the degree of B. Com. with advanced banking as their special subject.

7. *Training for Indigenous bankers.*

The indigenous banker still plays an important rôle in the banking system of the country and it is very desirable to provide him with facilities for training. For this purpose, we consider that the best way would be for the Indian Institute of Bankers to arrange course of lectures in vernacular in different important centres and to hold special examinations on the result of which certificates could be issued. It is possible that such an arrangement would attract the sons and relatives of indigenous bankers, who would prefer to have some theoretical grounding in their own future profession in their own vernacular, in addition to the practical training they may be receiving in their own *pedhi*. Courses of lectures in English at Bombay or Calcutta or such large centres, arranged by the Colleges of Commerce or the Universities or by the Indian Institute of Bankers, are not likely, in our opinion, to attract the type of the young boy who is to take up his family profession of indigenous banking. It might be profitable, perhaps, if for the vernacular final examination, a paper on banking were prescribed, inasmuch as the future indigenous banker always receives his vernacular education fully and would appreciate the study of commercial subjects along with his vernacular studies.

8. *Prospects of boys trained in Banking.*

There is good scope for boys trained in banking in India in the matter of finding suitable employment, and the scope would increase with developments in banking. But the reservation of higher appointments in banks for non-Indians makes the prospects of Indian trained men very limited, inasmuch as they can aspire only to clerical posts to start with, ending

with some comparatively small post in the officers' grade. Various communities in India have a natural aptitude for banking and India does not, in our opinion, need to import junior bank clerks from Great Britain to hold high appointments in Indian banks. We do not see why, particularly at the branches of the Imperial Bank, there should be high-salaried non-Indians as Agents when really the shroffs practically do all the business often with great ability. The process of Indianisation should be rapid in banking, in which India has not much to learn from other countries. With progressive Indianisation, there is no doubt that the prospects of Indians trained in banking will brighten considerably.

We do not attribute the slow development of banking and specially branch banking in India to absence of trained men in the country. The Indians naturally are familiar with banking business and have enough experience for generations in financing the home and foreign trade of India; there are doubtless few who are trained in modern banking conducted through a foreign language. Education has so far meant in this country learning enough of English and a few other subjects, it does not matter which, and securing a degree so that the graduate might aspire to a desk in some Government office. Education was a passport to employment largely under Government, but not to any business career. Those familiar with banking did not know English and those who knew English did not know banking. With the natural aptitude of the Indians for banking, we do not attribute the slow development of banking in India to lack of useful men, but to the non-vocational character of the educational system in this country and yet more to the high salaries which non-Indians get in modern banks and to the heavy establishment charges. If a branch means a fairly big building, with a big hall and a row of clerks behind the counter, with the boss segregated behind a glass screen, and chaprasis in livery waiting to rush at the tinkle of the little bell, it is no wonder that the development of branch banking has been slow. The Indianisation of the higher staff of banks would remove this difficulty and with the development of institutions in India providing for commercial education, including banking, we have no doubt there will be no lack of men trained in the modern methods of banking. We are not under the spell of the glamour of foreign degrees and diplomas, and feel confident that in banking at any rate, it is not necessary for a person to go out of India to receive training excepting to broaden his vision and acquaint himself with the methods of banking in other countries or to import trained non-Indians, except as specialists and for stated periods.

V. General Banking Organisation and Money Market.

14. *Increase in Capital*.

(*a*) We do not favour foreign capital being brought in to increase the capital of banks unless absolutely necessary, for certain specific purposes. The building up of the country's industries or developing its commerce with the aid of foreign capital is a doubtful expedient which had better be avoided as far as possible, while our objection to the import of foreign capital for enabling banks to afford further facilities to agriculture is much stronger. Where absolutely necessary, foreign capital could be obtained by Government to place additional resources at the disposal of the banks for affording further facilities to commerce, industries and agriculture. We, however, generally do not favour creating any vested interests of non-Indians in the organisations of the economic life of the country either directly or indirectly through Government.

(*b*) Trying to attract the savings of the community is undoubtedly the best way of increasing the resources of banks. For this purpose as we suggested in our answer to question III (11), savings bank deposits should be given a prior claim on liquidation of banks and facilities be given to operate savings bank accounts by cheques with the safeguards suggested by us to prevent a misuse of these facilities. We also think that a change of hours for receiving these deposits and allowing withdrawals therefrom would be very necessary to attract the middle class to deposit their savings in banks. To keep the working hours in banks for savings bank business from 11 to 4, when people are engaged in their office or business is practically tantamount to closing the doors of these banks against them and forcing them to play into the hands of share brokers, cotton brokers, etc., who tempt them to prospects of great gains, which by the way often turns into great losses, and who canvas orders in mornings and evenings when the middle class man is free. We are also of opinion that cheque books may be in the vernacular of the Province and that signatures in the vernacular should be considered acceptable.

(*c*) We are strongly of opinion that a fairly large proportion of receipts by Government from cash certificates and savings bank deposits should be released by Government for use by banks in the finance of agriculture and allied industries. We see no reason why such receipts from rural areas should not be made available to co-operative banks for affording facilities in the finance of agriculture. Western countries have accepted this principle and there is no reason why the Government of India should not do likewise. The Postal Savings Banks are surely not intended by Government to compete with other banking agencies; they are or should be institutions affording facilities, in the absence of private enterprise, for the safe investment of the savings of the community. We think that in rural areas postal savings banks serve as a hindrance to the co-operative movement where co-operative societies exist; the Government enjoys naturally better credit and attracts thereby the flow of deposits, while co-operative institutions which perform the function of financing agriculture have to do without such deposits or with a much smaller sum received as such. It is an accepted fact that the savings of the community in a region should supply or help to supply the wants of that region. We, therefore, suggest that in a few selected areas the Government may well close the postal savings banks and stop the sale of cash certificates or generally make a large part of receipts from these sources available to co-operative banks for agricultural finance.

15. *The services of the Imperial Bank.*

We are surprised that the question mentions all types of banks with the exception of co-operative banks. Presuming, however, that the omission is not intentional, we might state here our opinion as to the extent to which the Imperial Bank of India has been serviceable to the co-operative banks. For some time, the Imperial Bank used to grant credits to co-operative banks but of late the policy has changed for the worse and the credits have been reduced, stopped and in some cases, only allowed on hard terms. Another facility which the Imperial Bank extended to co-operative banks was the encashment at their local branches of cheques drawn by approved co-operative banks on the Provincial Co-operative Bank. This facility also has been recently withdrawn. The Imperial Bank functions as Government's agent in the matter of transmission of funds from one centre to another and as such has to issue demand drafts on Government

to co-operative banks in lieu of the free issue of R. T. R.'s, a concession enjoyed by co-operative societies. Even this issuing of demand drafts is, however, now being made conditional by the Imperial Bank on the money not being utilised for inland exchange business. As Government's agent, the Imperial Bank has no right to interfere with the enjoyment by co-operative banks of any concession granted to them by Government. As things stand at present, therefore the Imperial Bank is not serviceable to the co-operative banks.

18. *Facilities and concessions enjoyed by the Imperial Bank.*

In this question too we notice the curious omission of co-operative banks. We recommend that the following concessions and facilities be given to co-operative banks:—

(1) In centres where there are no branches of the Imperial Bank of India, approved co-operative banks may be entrusted with the management of Government sub-treasuries.

(2) Where this is not possible, the cheques drawn by co-operative banks on the Provincial Co-operative Bank in a Province should be encashed at par or at a small reasonable charge by Government Treasuries and the Imperial Bank and its branches.

(3) Accumulated balances in sub-treasuries might be made available to co-operative banks at a nominal rate of interest to enable them to finance agriculturists against their harvested crops.

(4) The debentures of co-operative land mortgage banks should be recognised as Trust Act securities, for though they have not the guarantee of the Secretary of State, they have the guarantee of the Provincial Government.

These facilities and concessions would facilitate the treasury work of Government, enhance the status of co-operative banks, enable them to develop deposit banking and arrange for prompt finance in outlying centres, enable the agriculturists to receive better prices for their produce and popularise co-operative land mortgage banks.

No. 11.

Letter from the Manager-in-Charge, the Anantapur District Co-operative Central Bank, Limited, Anantapur, dated 11th May 1930.

We beg to enclose a copy of our replies to the Questionnaire sent by you.

I.—*Industrial Banks and Credit facilities for India's main industries.*

The larger industries in the country wherein raw-materials are converted into finished products require an initial outlay on lands, buildings and plant, and a recurring or current capital for manufacturing processes, ever since the raw-material enters into the factory till it leaves it in a finished form for export abroad. The money for the former should be obtained necessarily by raising a large capital from one or more sources and this amount is not likely to be returned for some years to come. Generally, two or more persons join together and invest the necessary money into this capital. In joint stock companies they are subscribed by shareholders. The floating capital is secured on the strength of the subscribed capital and on the security of the plant and machinery and sometimes at sight of raw-materials in the factory.

Except the moneyed classes—those that possess large riches and who can therefore find both the kinds of capital themselves or on their credit partnership enterprises or joint stock companies have to find a major portion of both these forms of capital from the subscribers. The remainder is obtained either by pledge of goods in banks, or on credit from producers or suppliers of raw-material.

The types of Banks in this country may be classified under:—

1. The Imperial Bank,
2. Joint Stock Banks other than the Imperial Bank,
3. Co-operative Banks,
4. Commercial and Exchange Banks, and
5. Industrial Banks,
6. The indigenous Banks and Bankers.

The Imperial Bank does not finance industries directly; it can only lend money for a short time on production of title to goods or on their mortgage in the godown itself.

The joint stock banks are more nervous still. These have their usual normal obligations of paying their depositors and paying dividends on the share capital of their subscribers, so that, where an industry is in its initial stage they are afraid to have their money locked up. Moreover, these banks with the working capital at their disposal, cannot find the large capital required for even an ordinary industrial concern. The whole resources of a bank of fair size will be needed to meet the demands of even one industrial concern fully and certainly a single bank of this type cannot finance many industrial activities at the same time.

Co-operative Banks play little or no part in this field and all their sinews of war are not enough even to finance agricultural credit. Moreover, they are least inclined to help industries—even small cottage industries—by the very nature of their constitution.

Private Bankers are of some help, but cannot adequately meet.

Whatever may be the little assistance these institutions render to industries, one thing is certain, that long term capital for the large initial expenditure is not forthcoming. This is a great handicap.

The industrial banks are not many; the few that came into existence in the wake of the recommendations of the Industrial Commission of 1916-18, have already gone the way of liquidation; one or two are dragging on their last days.

As things are present, no bank is prepared to finance industries, nor will the constituents of the Bank permit such a course, as their interests such as dividends, rates on deposits, will suffer.

I should suggest therefore that either an industrial bank with branches should be established for financing industries in each province, or particular banks should be authorised to finance particular enterprises with a clear provision for amalgamation of such banks in case of failure facing any of them. In such banks there should be no reserve liability—all the shares should be fully called up, and the amount invested in shares or long term deposits in industrial concerns mainly with a view to providing their initial capital on plant and buildings. Such banks should carry on their normal operations of banking, exchange, etc., to fulfil their obligations to the constituents. Purely industrial banks which sink all their money in the financing of industries which are necessarily slow and subject to risks on account of market fluctuations, are not generally successful. Even such banks should possess the parallel activity of ordinary banking business to keep them a going. Their paid up capital should bear a high proportion to the total transactions.

Banks financing industries shall have a voice in the management of the industrial concerns by being given due representation on the board of management and there should be industrial experts on the staffs of financing Banks.

A Government representative of the Department of Industries shall also be co-opted on the boards of managements of these industrial concerns on behalf of the banking public.

An industrial bank, or a bank which is given the privilege of financing industries, should not allow too large a share of its funds to be used for the benefit of any single interest or group of financial inter-dependent interests. Its loans on plant and buildings and land should be carefully considered and should be limited in each case, the larger portion of its industrial business should be confined to the provision of working capital. It should provide the initial capital with caution, at any rate during the opening years, and should not itself at first attempt to float companies, though it may advise and assist in other ways persons who proposed to do so. The main factor of safety in such banks is the judicious limitation of each class of business to its proper proportions.

I should suggest that if a separate industrial bank is formed it be registered under the co-operative society's Act, with the same Government guarantee as is being contemplated in Madras in the institution of a

Central Land Mortgage Bank, which is to finance agricultural industry to the extent of initial capital or outlay on purchase or redemption of land, the floating expenditure being provided by local credit societies.

The present position of financing of industries, large or small, may be summarised thus:—

Banking facilities do not exist for all the great majority of agriculturists and the co-operative credit movement is still touching only the very fringe of agricultural population. Even where branches of banks exist in mofussil towns they do not, unfortunately, attract the custom of the small trader or of the agriculturist, nor do either of these under existing conditions, possess the confidence of the banks. The often illiterate agriculturist views with considerable doubt the deposit side of bank's business, while the security that he can offer though good of its kind is, owing to the unbusinesslike methods, far less tempting to a bank than the business offered by even tenant farmers in other countries.

The agriculturist, the village artisan and the smaller trader are financed by the sowcar who does not confine his dealings to money but is often also a purchaser of local products and a dealer in imported articles. He often operates with his own capital, or is helped by a bigger man of his own class and the latter often has dealings with banks on a considerable scale.

The sowcar charges higher interest; landed security is good but is not easily or rapidly realisable; debtors are uneducated and have no idea of business methods or of punctuality in meeting their obligations. Their income is often precarious depending as it does on the nature of the season and partly in self protection, the sowcar charges a rate of interest which local custom readily tolerates.

The larger sowcars who finance landowners are regular traders, often lend money on cheaper terms. But even they do not consider that organised industries, except a few well known and well established ones, with the value of which they are fully acquainted, furnish acceptable security and when they lend to others, they exact heavy interest. It is only the small industrialists who crave the assistance of the sowcars. The larger concerns go to the banks.

Thus except for the branches of Imperial and joint stock banks, and a few local banks, such capital as exists in mofussil is unorganised and the transfer of money is a personal transaction between the payer and the recipient. There are very many many small towns each of which carries on business under these conditions and without the aid of banks. The volume of such business is so great that in the case of similar towns in Western countries it would be considered sufficient to warrant the establishment of branch bank.

The branches of the Imperial Bank, set up in business towns in mofussil, only partly meet the proposal for organisation of mofussil resources. The main difficulty is the lack of trained bank employees, owing to absence of facilities for commercial education and of any regular system of training Indians in banking work, while the country folk do not realise the advantages to themselves of organised banking. The extension of banking in mofussil areas is consequently very slow.

Those who invest their savings find few fields which are at once safe and attractive. Investments in land by purchase or mortgage still appeal most strongly to the Government official or professional man; and the farmer with spare funds cares for little else, except in a few parts of the

country, where some form of industry usually of a simple type, has become recognised as a safe investment. The Post Office Savings Bank and Cash Certificates attract deposits from intelligent middle class in towns, including Government servants, and to some extent Government paper also has found holders among the same classes as well as among the bigger landholders.

The employment of wealth by those agriculturists that possess it follows the traditional lines, *viz.*, jewellery of their womenfolk, the retention of certain rupees or sovereigns part of which is used for current expenses and of their cultivation and the rest being hoarded against future necessities or to be lent to neighbours during short season periods at a high rate of interest to make up for the loss of interest during the period it has been hoarded.

In mofussil towns small industrial undertakings are started by individuals, family groups or syndicates. But a sense of business proportion is lacking; in certain parts of the Deccan tract, the number of ginning factories and baling presses, ground-nut decorticators is far beyond the requirements of the crop; and in Delta tracts, the number of small rice-mills established in recent years has rendered barely profitable what was at the outset a flourishing industry.

Even in Presidency towns, the banking system is too inelastic and is insufficient to meet the needs of the country, and in respect of industries, development is greatly retarded for the banks refuse to advance money for lengthy periods on the security of buildings and plant.

It will thus be seen that everywhere the difficulties in obtaining loans and financial assistance are experienced chiefly in the case of middle class industrialists who are unable to offer the security of approved names of stocks which could be readily disposed of.

III.—*Regulation of Banking.*

At present the banks in India are all registered under the Companies Act. A very attractive prospectus is issued setting forth the prospect of high dividends, and no doubt considering the high dividends which some of the banks are paying and the fashion for such dividends following in the wake of the Imperial Bank dividends, there is rush for shares of even a newly started bank—rush bordering on madness when on the provisional Directorate of the bank one or two prominent men well-known to the banking or business world are given seats.

The business management entirely rests with the board and the superior staff, the shareholders having only a nominal voice. The system of proxy-voting is great strength to maintain the *status quo* of the bank, especially when the shareholders are not confined to the immediate neighbourhood of a bank's premises but hail from distant parts, several miles away. The balance sheets are scrutinised by the bank's own auditors, who in these days of competition are only too reluctant to lose their custom. Hence one cannot expect that amount of bold and independent criticism of the bank's transactions as is necessary to a clear understanding of the soundness of the business. Whatever may be the nature of audit conducted by the bank's auditors, there should be a Government syndicate of auditors, solely for the issue of final audit reports on a detailed examination of the bank's transactions.

Towards the cost of these the banks shall contribute a portion, say a fourth, of the fee they pay to its auditors. Government on its part cannot divest itself of its responsibility to the public in as much as large incomes, in the shape of income-tax, super-tax and other fees, are poured into its coffers, owing to the transactions of these banks.

In view of the safeguards suggested above, no restrictions need be put on the sphere of bank's operations, except that in the case of industrial banks, the precautions mentioned in Chapter I should be observed.

Co-operative banks should be left free to function as they do now, but foreign banks should be sufficiently taxed, or special license fees levied on them in order that indigenous banks may thrive.

The Joint Stock Companies Act is rather too liberal. Better if a separate law is enacted for banks alone, those that carry on real banking business in the usual sense. In a banking Act, specific definition should be given to an industrial bank as normally no bank should be allowed to finance industries, unless such banks, as already indicated, are authorised to finance industries with the limitations already mentioned.

The system of overdrafts prevailing in joint stock banks in regard to individuals requires overhauling, and in no case should overdraft exceed the cover deposited or pledged with the bank. Under the new banking act, it should clearly be enjoined on every bank coming under the operations of this Act that in case the transactions, as revealed in the Government examiner's report, are not satisfactory, and if failure is to face it if allowed to continue to function, such a bank should be amalgamated with any of the existing banks by a resolution of the bankers' conference referred to in the next chapter. Otherwise it should be liquidated before the liabilities exceed the subscribed share capital.

It is better if these banks are encouraged to receive provident deposits which will attract the small savings of people; but such deposits should necessarily be secured by investment in satisfactory securities to guarantee payment or return of the benefit in case of investors completing the period of contract or of bank's failure. This is one of the ways in which the investment habit may be developed among the middle class earning people. It is even desirable that special protection should be given to a bank working in a particular locality against competition from other banks, if it is found that the bank is meeting the entire needs of the locality and if the newcomer is likely to be duplication of the existing machinery. Particularly speaking, where co-operative banks exist and are found to satisfy the financial requirements of the locality, other banks with similar activity ought not to be allowed to come into being. Registration of such banks should be refused.

To give effect to these suggestions and recommendations, a Central Board with sub-boards for each province should be created under the banking act.

IV.—*Banking Education.*

One of the causes of the defective or inefficient management of Indian banks is the inadequacy of banking specialists or trained bankers on the staffs; partly due to the paucity of hands trained in banking methods and reluctance to pay high salaries to staff. Except in Bombay and Calcutta, facilities for banking education of a higher type, with recognition of University degree, are absent. This statement may be easily realised from the fact that annually a large number of educated young Indians appear for

banking and commercial examinations of the London Chamber of Commerce and other institutes conducted in India at various centres. Even for these examinations only under-graduates appear in large numbers. Graduates of Indian Universities with a commercial hall-mark are very few, as University degrees are not available in these subjects generally.

The schools and colleges on banking are owned by private persons or committees, and one can understand what soundness there can be in an education conducted solely for examination passes, without personal coaching and intimate touch with practical side. The candidates coming out of these are so much suffused with a sense of superiority of their hall-mark that they are disinclined to take up posts in the lower rungs of a bank's staff and want high places of secretaries, managers, etc. Consequently, the training and the experience necessary for a high officer of a bank are lacking in these men with the concomitant defects of supervision and scrutiny.

I should suggest that in all industrial and banking centres there should be banking schools and a central college for the Presidency affiliated to the University. The successful candidates should not be given a certificate of pass until they shall have undergone a practical course in any well conducted bank for a period of two years at least after passing their examinations. The examinations and the institutions should be under the control of the Central or Local Board with adequate financial aid from Government.

The present position and recruitment of bank staffs may be said to be undesirable Excepting the Imperial Bank which has of late introduced the scheme of bank Probationers there is practically no method of recruitment in other types of banks. Anybody with a certificate of pass in a banking examination is fit for appointment. The condition is still worse in co-operative banks. Everybody is supposed to be born a banker. Any member of a co-operative bank who is elected to be secretary or managing director becomes all at once an expert banker; his will is the rule of banking; his practice the method of banking. Only recently during the past one or two years two co-operators are realising the folly of this assumption, and one or two members on the staff are required to pass low grade examination in banking. There is ample scope left in this field for employment of efficient, well trained and experienced bankers on the superior staffs of at least the Central co-operative banks.

The exchange banks are mostly owned by foreign capitalists and their position may be said to be somewhat better than the other banks.

To encourage higher studies in banking, a few young men may annually be sent out on Government of India scholarships to foreign countries to study advanced and complicated banking system of America and the continent including England.

In respect of banking business the indigenous bankers are, in my opinion, much better. They are steeped in practical banking. From the very tender age of boyhood, the sons and relations of these bankers are apprenticed to firms and only after a long period of 10 to 15 years are they given any responsible positions or allowed to set up independent business. It would be better if these are given some general education, particularly in the theory of modern banking. This question may well be left for consideration of the Central Board on which there shall certainly be a representative of this class of bankers.

V.—*General Banking Organisation and Money Market.*

As already pointed out the banks in India should be brought under the purview of a new Act called the Indian Banking Act and the provisions of the Companies Act shall no longer apply to them. Under the Act, the State should be in a position to be in intimate touch with the working of banks and have powers to interfere in extreme financial difficulties of individual banks, either by amalgamation or liquidation at the very stage of decline. Statutory obligation should be laid for an annual final examination of the accounts and affairs of the banks. Due representation should be given on the proposed central banking board to banks, and periodical meetings and conferences of bankers should become a recognised affair. In truth, want of co-operation among the bankers is responsible for many of the defects in the banking position. In matters of co-operation competition among banks is most undesirable, especially in a field where money is involved. I should suggest that these banks work on the line of trade guilds in England and such co-operation, joint deliberation and a common working understanding will have a steadying influence on the money market.

The frequent fluctuations in the money market which affect the values of securities, tending often times to their deterioration, and the changing rates of interests on deposits in banks take away from the investing public that amount of confidence necessary to ensure their continued custom with the banks. Whatever may be the effect of the condition of other countries on the world's money market, their effect on the Indian money market may be minimised by the Indian banks co-operating among themselves, as almost all the transactions of these banks are held up in the country. When this desired consummation is brought about, so many other minor disparities will adjust themselves. When once the money market becomes more or less steady, the public are assured of fixed rates of interest for a definite period and the deposits will increase in the existing banks, or new banks may set up to meet the increasing volume of investments. With provision in the statute for amalgamation of banks, the security of the depositors is assured and I do not see any objection to giving banks the ordinary facilities which the Imperial Bank at present enjoys. It must be boldly pointed out here that in money matters the failure of even one bank with the consequent disastrous effects is enough to drive the public to withdraw their supports to banks in general. After all, such failures can be avoided by the precautionary measures suggested to be provided for in the proposed banking act. Fraudulent manipulations of accounts were responsible for such failure in a few cases. In others, large sums of money were advanced to enterprises in which some of the directors were interested. There were besides mistakes of policy, as for instance in the financing of long term business with short term deposits and the sinking of far too great a proportion of these funds in a single industry.

Note on Co-operative Banks.

Whatever may be the financial soundness of joint stock banks and the concessions granted to them by the State, the balance of public and Government support should be on the side of co-operative banks which

by the very nature of their constitution and working are intended for the good and welfare of the people. Certain changes in their methods of working are necessary to keep pace with modern developments. Particularly financing of small industries—cottage industries—should be unhesitatingly resorted to. Of course, experts should be appointed on the staffs of these banks to examine the conditions of the borrower and to provide facilities for the marketing of his products. The present nervousness of these banks to finance industrial undertakings should be shaken off.

As regards large or major industries, I should, as before, advocate the establishment of separate central co-operative industrial banks to function in the manner an industrial bank is expected to do.

No. 12.

Statement of evidence submitted by the Bihar and Orissa Provincial Co-operative Bank, Limited, Patna.

I.—Credit facilities for India's main industries.

1 & 3. In the Province of Bihar and Orissa, agriculture is by far the most important occupation at present. According to the Census report for the year 1921 the Province has a population of three crores and seventy-nine lacs out of which four-fifths or three crores depend on agriculture. The Province is overwhelmingly agrarian, and agriculture is the chief industry of the people. With the development of a rapid and cheap means of communication due to the utilization of steam, electricity and petrol and development of roads, railways and canals, the movement and marketing of food crops from all centres have both become comparatively easy. Commercial crops have replaced food crops in many localities, rural economy has undergone a considerable change and abundant, cheap, and long term credit is now required for the production and marketing of agricultural crops. Besides, rural indebtedness in the Province is heavy and rates of interest charged for agricultural credit are still very high although agencies for supplying this credit are plentiful and widely distributed. The indebtedness of the landlord class also presents a problem which is distinct from that of the ordinary cultivator.

The agencies for the supply of agricultural credit are still very imperfectly organised and although co-operative credit has made an appreciable inroad into rural credit, and as a banking agency is generally in a satisfactory condition, there is no co-ordination amongst the various credit agencies including Government, and no suitable links between the urban and rural agencies and between the urban and central money markets for agencies other than co-operative credit. The banking system is confined only to commercial banking which forms an unimportant part of the economic activities in the Province and co-operative credit, which has touched only a very small portion of the rural population, is the only organised system of rural credit.

The main defect of co-operative credit, which is the only organised system of agricultural finance, is the inconvertibility of agricultural paper, and the assistance the Imperial Bank, which is the State Bank of the country, can render, is by way of strengthening the existing provision for overdrafts to co-operative banks on the backing of the promissory notes of approved central banks and primary societies. The existing arrangements for this purpose in the Province are far from satisfactory. There are only two central banks out of sixty-seven which enjoy total cash credits of rupees eleven thousand from one joint stock bank, secured by their general assets, and the Provincial Bank is the only co-operative bank which enjoys two cash credits or rupees seven lacs and an overdraft of rupees two lacs, eighty-five thousand from the Imperial Bank of India. The first cash credit of rupees four lacs is obtained against the demand promissory notes of rupees four lacs executed by the bank out of which a sum of rupees one lac is guaranteed by each of the following four big zamindars of the Province :—The Maharaja of Darbhanga, Maharaja of Hathwa, Raja Bahadur of Banaili and Raja of Nazargunj in Purnea. This cash credit was originally granted in the year 1914 by the Imperial Bank of India at a concession rate of half a per cent. below Bank Rate. This concession has been withdrawn by the Imperial Bank from November 1929 on the ground that the financial position of the Provincial Bank is now strong enough not to

need this concession. The second cash credit of rupees three lacs is granted by the Imperial Bank on the security of the demand promissory notes of rupees four lacs in favour of the Provincial Bank against the cash credit accounts of central banks approved by the Registrar at Bank rate. The overdraft of rupees two lacs eighty-five thousand was granted in the year 1923 by the Imperial Bank of India against Government securities of rupees three lacs at half a per cent. below Bank rate. The arrangement still continues, but a notice has been received that the concession of half a per cent. allowed in the rate will be withdrawn from the 1st July 1930, as the Imperial Bank of India can no longer see its way to allow the concession. As will be seen from the above, the only accommodation obtained by the co-operative movement in the Province against agricultural paper from either the commercial banks or the Imperial Bank of India is the cash credit of rupees three lacs granted to the Provincial Bank. The total deposits, fixed, current and savings from non-members were rupees one crore ninety-seven lacs, while the deposits held from members amounted to rupees six lacs and the reserves, paid-up share capital to rupees eleven lacs and twenty-nine lacs respectively in the central banks and the Provincial Bank on the 31st December 1929. The total working capital of the central banks and the Provincial Bank, therefore, was rupees two crores and forty-three lacs out of which a sum of rupees forty lacs represented the co-operative banks' own capital, while a sum of rupees two crores and three lacs represented borrowed capital. With such large resources and large commitments, the only accommodation the movement has received from the Imperial Bank of India, which is the State bank of the country, against the demand promissory notes of co-operative banks is the cash credit of rupees three lacs, which is totally inadequate for an important industry like agriculture. Loan bonds of primary societies constitute the security against which loans are advanced to them by central banks, and loan bonds and promissory notes constitute the securities against which advances are made to central banks by the Provincial Bank. Co-operative banks are under the special disability of possessing as security for their loans, loan bonds and promissory notes which are incapable of being converted into cash in the market, and the only way by which the necessary elasticity can be imparted to co-operative finance is to make these bonds and promissory notes acceptable to the Imperial Bank of India as collateral security, against advances to co-operative banks. Co-operative credit is likely to occupy a very prominent position in agricultural finance before many years have passed, and if adequate financial assistance has to be provided for this premier industry of the Province, it is necessary to provide suitable accommodation to co-operative banks against the backing of agricultural paper they now possess, with proper safeguards in order to ensure its easy realisation.

At present no distinction is being observed by central banks between long and short term loans to societies. If this distinction could be observed and if promissory notes could be introduced in place of loan bonds for short term finance, the paper will be more acceptable to commercial banks as well as the Imperial Bank of India than the loan bonds now in use. The entire dependence of the crops on the annual monsoons, the indebtedness of the peasants, the constant fragmentation of the holdings, a majority of which have consequently become uneconomical and the lack of subsidiary cottage industries are factors which tend to make agricultural finance long dated. A separation of long and short term finance is very desirable at central banks but it is doubtful whether the period of short term agricultural finance can be safely reduced to a period which will make it possible to introduce short term bills as security in societies. Even if this is done, agricultural paper cannot by its very nature be considered

as liquid as ordinary trade bills. Attempts made in some Provinces to distinguish between crop loans and short and long term loans in societies, as could be gleaned from reports, have not met with encouraging results.

A warning has recently been sounded against the utilisation of cash credits granted by the Imperial Bank of India to co-operative banks as fluid resources by the latter as recommended by the Maclagan Committee on co-operation, and they have been advised to maintain adequate fluid resources in Government securities, independently of the above credits. There, however, appears to be little harm in this practice, as it is unlikely that the Imperial Bank of India will refuse to meet its liabilities under these cash credits. If there is any ground for such an apprehension, the proper remedy would be to place such relations between the co-operative banks and the Imperial Bank of India on a contractual basis. The Imperial Bank, as the repository of Government balances and virtually the State bank of the country, owes this duty to this premier industry of the Province.

In this Province, it is not an easy matter to maintain adequate fluid resources in Government and Trust securities, as the yield on such securities is generally found to be more than one per cent. lower than the rates co-operative banks have to allow on their borrowed capital. The margin between the rates at which the central banks borrow and lend, considering their resources, their heavy expenses after propaganda, training village welfare work, and the contributions they have to pay for audit and development, is small, and the tendency is towards a further decrease in this margin. The Provincial Bank's average borrowing rate was six and a half per cent. and its lending rate was eight per cent. per annum, only five years ago. Its average borrowing rate is five per cent. and its lending rate is six per cent. per annum now. There is a fall of half a per cent. in the margin between the borrowing and the lending rates of the Provincial Bank within a period of five years. The lending rate has been maintained by the Provincial Bank at six per cent. since the last three years in spite of the steady increase in the average Bank rate from five and a half per cent. in the year 1925 to six and a half per cent. in the year 1929. This tendency of smaller margins for co-operative banks with the expansion and progress of the movement has been brought about by circumstances over which they have little control and the tendency is towards lower margins still. The assistance the Imperial Bank of India has granted to the Provincial Bank against the demand promissory notes of central banks requires, therefore, to be extended and not curtailed as is being done, with a view to enable the apex bank to grant adequate credits to its affiliated central banks, which had to be recently curtailed, due to insufficient resources at call at command at the Provincial Bank. As an apex bank for the movement has been in existence in the Province, it appears desirable that the financial relations of the central banks with the outside money market, namely, the joint stock banks and the Imperial Bank of India should be only through the Provincial Bank and not direct.

The promissory notes of approved central banks, which serve as collateral security against the cash credit of rupees three lacs granted to the Provincial Bank, can safely be considered to be an eligible form of security against advances by the Imperial Bank. The cash credit is secured, firstly, by the general assets of the Provincial Bank and, secondly, by the assets of the central banks, the combined owned resources of which amounted to rupees forty lakhs, and the combined total assets of which amounted to over rupees two crores on the 31st December 1929. The assistance the co-operative banks have received from the Imperial Bank of India against the available co-operative paper in the

Province is a cash credit of only rupees three lakhs, against the total assets of rupees two crores involved in the movement, which is inadequate. Consistent with safety and considering the fluidity of the demand promissory notes of co-operative banks, ten per cent. of their assets or a cash credit of rupees twenty lakhs would prove to be an adequate credit for the Provincial Bank to enable it to provide fluid resources to cover deposits and short term loans of central banks.

2. To a limited extent, financial assistance is being given by the co-operative movement in the earlier stages of agricultural production and in the marketing of the produce in the Province. The efforts made at the co-operative marketing of agricultural produce, and manufacture and sale of articles on co-operative basis, are still very limited. The financing of the agricultural produce is mainly done by big mercantile houses through their local agents. The present state of things can only be improved by extending co-operative sale, purchase and manufacture so that the benefits of trade, instead of being limited to the already well-to-do and influential middlemen and traders, are distributed amongst the producers and consumers.

II.—Financing of Foreign Trade.

1. With a total population of three crores and seventy-nine lacs and an area of over one lac and eleven thousand sq. miles, the Province possesses only seven cities, each with a population of over fifty thousand inhabitants. The people living in cities represent about four per cent. of the total population and there are only fifteen centres which possess one or more branches of a joint stock bank, including the Imperial Bank of India. The number of centres served by joint stock banks in the Province is very limited and its main industry and trade is the production and marketing of the agricultural products, except in the mining areas of Manbhum and Singhbhum Districts. The Imperial Bank, which possesses the largest number of branches in the Province and the other big commercial banks, like the Allahabad Bank and the Central Bank of India, which also have branches, finance trade in grains, pulses, seeds, etc., only to a very limited extent, as the trade is generally carried on by petty merchants, few of whom have any direct relations with these big banks.

In the Province all merchants as a class are unable to secure the assistance they need from joint stock banks because very few of them maintain any relations with them, and the centres at which the offices of these banks are situated are very limited. A provision of more branches of big joint stock banks does not appear to be a suitable solution. It is even doubtful whether branches of big commercial banks in centres of petty trade and commerce can be successful. The cost of management and supervision charges of such branches are generally heavy, and the branches generally cater to the needs of fairly big constituents. Besides, by experience it is found that such branches have so far succeeded only in drawing out money from such centres for use in big commercial cities. The system of branch banking of big commercial banks has resulted in centralizing the country's finances in big commercial cities, and increasing the number of middlemen, before the funds again reach the petty mofussil merchants through big mercantile houses with offices at such centres. Branches in small centres can neither be profitable to the banks nor suitable to the needs of the petty traders in mofussil towns.

Another solution is the encouragement of small independent banks in mofussil towns. The defect of the system of having several petty banks is that in the absence of a central supervising and co-ordinating agency, individually these must remain financially weak, and may not succeed in inspiring

the confidence, necessary for their success. Due to the lack of technical education required in organising and running a bank, the development of such institutions is bound to be slower than the requirements of the country demand.

Considering the state of trades of the Province, the most suitable solution to the present need of banking facilities in the country is the organisation of Peoples Banks on co-operative lines in all centres of petty trade and commerce. These institutions are so constituted as to attract the savings of small men and employ them locally, a machinery also exists whereby their activities can be controlled by Government, and technical advice and necessary financial assistance are also available to them whenever needed from the existing credit institutions, which can successfully connect the mofussil towns with the central money markets through the well-organised system of co-operative credit. These banks can be easily organised with small capital and will not only command sufficient credit but also provide a training ground in banking methods and practices to the people in mofussil towns.

III.—Regulation of Banking.

1. The audit and examination of bank accounts should be done only by duly qualified auditors. Their duties should be not only to examine the accounts of banks in their charge but to appraise their financial position and suggest ways to improve it. The qualification of these auditors should be the same as those of certified auditors and their cost should be met by fees from banks audited by them as at present. The present practice is for the meetings of the shareholders of these banks to appoint auditors for the ensuing year. Athough this practice may not have been found desirable in a few cases, there is nothing very objectionable in continuing it, especially in view of the fact that there is hardly any other suitable alternative. If an All-India Auditors' Association could be organised, and if the practice of audit is restricted only to those auditors who are enrolled as members of this Association some of the malpractices which have come to light will also receive a suitable check.

2. Restrictions of the nature imposed on the Imperial Bank of India under section 8 of the Imperial Bank of India Act can with safety be imposed on a few commercial banks only. With regard to other banks, *viz.*, land mortgage and industrial banks organised for special purposes, the restrictions imposed on the business of the Imperial Bank cannot be considered to be suitable. No general restriction can, therefore, be safely imposed on all banks organised for all purposes.

3. The word "bank" should be strictly limited to institutions doing deposit banking and private firms should not be permitted to make use of the name "bank" unless they are registered. A disciplinary control over institutions which carry on banking privately is necessary and it is necessary that no private firm or individual lends out money without obtaining a license. No private firm with its head office outside India should be permitted to carry on banking business in India, and foreign banks, which are public companies and doing banking business in India, should publish periodical reports and returns pertaining to their transactions in India. These provisions should be enforced by Government through the local departments of industry or through the Registrars of Joint Stock Companies.

4. At the present stage of development of the co-operative movement and in the absence of other banking facilities in the Province, legislation defining the sphere of operations of co-operative banks appears inadvisable and, if undertaken, might result in preventing the growth of co-operative institution along channels where they may ultimately prove to be of the greatest benefit.

6. The subscribed capital in banks should have a definite relationship to the authorized capital, while the paid-up capital should also have a similar relationship to the subscribed capital. The relationship should be such that ordinarily the paid-up capital of a bank before it commences business is not less than one-fourth of its authorised capital. In co-operative banks the contribution of one-fourth of their annual net profits to their reserves is compulsory. A similar rule will be advantageous in the case of joint stock banks. In co-operative banks the rule is that the proportion of owned capital, *i.e.*, share capital and reserves to borrowed capital, *i.e.*, deposits, loans, debentures, etc., should not ordinarily be below 1 : 8. For co-operative banks, so high a proportion of owned capital is necessary, due to the rigidity of their investments. In the case of commercial banks with a large portion of their assets in easily realisable securities, such a large proportion of owned to borrowed capital may not be considered necessary, but in the interests of sound banking, some relationship between the borrowed and the owned capital seems necessary, and a minimum proportion of 1 : 15 between the owned and the borrowed capital would appear suitable.

7. Credit is a very delicate plant and to foster the growth of credit institutions, the latter requre very delicate handling. The shaken credit of one institution has invariably affected the credit of other similar institutions. For a bank, therefore, whenever it is weak or embarrassed, it must be possible to seek amalgamation with a large bank on suitable terms without passing through the process of liquidation. In extreme cases, however, where an amalgamation with a stronger bank is not possible, in order to prevent panics and avoidable depreciation in the assets of the embarrassed bank, assistance similar to that rendered to the Alliance Bank, should be available from the Imperial Bank of India. With a view to prevent a forcible liquidation after a bank's condition is considered weak, a temporary moratorium should be permitted, till it is finally decided either to amalgamate or to liquidate it.

11. No legislative measures appear necessary for protecting the interests of depositors by making any further distinction between current accounts and other deposits. Current accounts of depositors generally represent funds which may be required at call or short notice, while fixed deposits generally represent surplus money which could be safely put aside for a certain period, and this necessary distinction is generally observed and provided for in the business rules of all well-regulated banks, catering to the requirements of such depositors. The savings deposits in banks, in a majority of cases, represent the savings of small depositors and as such deserve preference over other deposits in extreme cases of liquidation. A general rule protecting all savings bank deposits in preference to other deposits, however, appears inadvisable at present.

12. Legal enactments can protect financially sound banks against the unjust, repeated and open attacks of interested critics, but it is doubtful whether such enactments can protect banks against the attacks of those critics who choose to work from behind the screen. Besides, there is a danger of such enactments being utilised by financially weak banks to protect themselves against the just attacks of their critics, and as such may prove to be against the interests of the development of sound banking. The only effective protection a sound bank can have against all attacks is to have adequate fluid resources and the certainty of assistance without delay, from the Imperial Bank of India, as long as the Central Reserve Bank is not established. The constitution of the Imperial Bank does not make it obligatory on that bank to assist all financially sound banks in cases of emergency, and although recently its policy has been to assist other banks in distress, it still remains a joint stock bank run entirely in the interests of its shareholders. With a view to

safeguard the interests of banking, and to ensure banking development on sound lines, the organisation, at an early date, of the Central Reserve Bank, with the power of issue, a statutory obligation to assist banks in distress, and with power to utilize the currency reserves maintained in England in this country, appears absolutely necessary.

13. Co-operative banking in an agricultural country like India must play an increasingly important part with the passage of time and with a view to enable such banks to adequately finance agriculture and provide banking facilities in mofussil areas where no joint stock bank can exist, special concessions could usefully be granted to them. The following are a few of the concessions which in our opinion could advantageously be granted to co-operative banks :—

(*a*) Co-operative banks are generally far removed from all centres of extensive business and trade and have to entirely rely on the local Government Treasuries for the remittances of funds from and to the Provincial centres. The Imperial Government in letter No. 1244-A. G. R., dated the 29th September 1924, make it clear that the buying and selling of remittances is not consistent with the principles of co-operative banks and that the concession of free remittance of funds by R. T. Rs. is not made to co-operative banks to enable them to carry on a commission business. It is, therefore, suggested that auditors of co-operative societies should be instructed to check any such transactions which come to their notice and report them to the Registrar. It is, therefore, suggested that if any local Government considers it necessary to impose a maximum limit on the daily issue of R. T. Rs. at par to co-operative banks with a view to check any tendency on their part to abuse this privilege, the Government of India will have no objection to the imposition of such local restrictions as are considered necessary. The object of this latter could have been achieved if the restrictions imposed were confined to co-operative banks situated in centres where a branch of the Imperial Bank of India is in existence. By extending its application to all Provinces and to all co-operative banks which are situated in small towns in the mofussil, where these are the only banks in existence, or which may be profitably organised, a serious check has been put on the development of remittance facilities and banking habits in the rural areas of the country.

Exchange business is a perfectly legitimate business for co-operative banks and societies to undertake. In Europe, co-operative banks are doing this business in spite of the fact that remittance facilities are more numerous there than in India. Freedom for co-operative banks to do exchange business will mean a considerable saving in the expense and risk involved in the transfer of funds from mofussil sub-Treasuries and Treasuries to the branches of the Imperial Bank of India and *vice versa*. As is well known, the annual seasonal stringency in the money market commences with the movement of crops at the end of the monsoon. Generally speaking, the stringency synchronises with the collection of land revenue by Government. The land revenue so collected accumulates in Government Treasuries without any outlet to make it available for the finance of local trade. The agriculturist at the same time markets his produce and the merchants require money in mofussil towns for the purchase. At this time of the year the Government Treasuries in mofussil towns possess funds but cannot release them for the use of local merchants. These funds, at considerable risk and cost to Government, have some times to be sent to Central Treasuries whence they pass on to the Imperial Bank in a similar way. The local merchants on the other hand obtain funds from big merchants in cities. The flow of Government funds in the busy season for trade

is, therefore, from the mofussil to commercial cities while for commerce is from cities to the mofussil towns at the same time. The risk and cost involved both for Government and merchants for sending and obtaining these funds can be obviated by permitting co-operative banks to discount local hundies of approved merchants. The co-operative banks can serve as links between the merchants who need funds and Government Treasuries which at this time have funds to remit to Central Treasuries. As is well known, the feeling of stringency in the money market is generated by the scramble for funds in big commercial cities and its origin can be traced to the insistent demand for funds from merchants in the mofussil. The stringency, therefore, is more psychological than real. If, therefore, a means can be devised to release the currency locked up in local Government Treasuries and sub-Treasuries for the use of local merchants through co-operative banks, by permitting the latter to do exchange business, the feeling of stringency is sure to be less acute with the passage of time.

The busy season in India ends with the commencement of the monsoon when funds remitted to mofussil towns return back to big commercial cities, this period synchronises with the time when members of societies require funds for their agricultural operations and the co-operative banks draw funds from the Provincial Bank. If the co-operative banks be permitted to do exchange business, they would sell their drafts or hundies against the Provincial Bank to local merchants and thus promptly obtain the required funds locally. The co-operative banks should, therefore, be permitted to do exchange business freely in centres where a branch of the Imperial Bank is not situated and if necessary, the business of co-operative banks be restricted to a maximum sum of Rs. 10,000 per day in centres where there is a branch of the Imperial Bank.

(*b*) The facility of a free remittance of funds by R. T. Rs. on Government Treasuries allowed to co-operative banks is certainly of great advantage to them. As has been mentioned before, co-operative banks are generally situated in centres where without such assistance from Government, funds would not be available. The advantage, however, of this facility is largely nullified, due to the loss of interest these banks have to suffer on balances in transit, as there is a minimum delay of at least a week even when such centres are situated near each other. With a view to prevent this loss to co-operative banks as far as possible, it is necessary that Government should extend the facility of a free remittance of funds by supply bills and telegraphic transfers to co-operative banks. In section 163 of the Resources Manual of Government of India, the charges made for the issue of supply bills and telegraphic transfers are given as below :—

	Per cent.		
	Rs.	A.	P.
For amount of Rs. 10,000 and above . . .	0	1	0
For amount of less than Rs. 10,000 . . .	0	2	0

The telegram charges may be Rs. 3 or Rs. 2 according as the person desires to transfer by an express or an ordinary telegram. When Government have already been pleased to confer the privilege of free R. T. Rs. to co-operative banks, the concession asked for in the proposal for the issue at par of supply bills and telegraphic transfers will not be considered to be excessive.

(c) In the interest of banking development in the country, it will be necessary to concede the additional privilege of the issue at par of supply bills and telegraphic transfers to co-operative banks, whether there be a Treasury or a sub-Treasury. The present method of issuing cash orders at par in lieu of R. T. Rs. from Treasuries on sub-Treasuries increases the delay in the transfer of funds from one co-operative bank to another, it is a serious matter for consideration whether R. T. Rs. cannot now be issued direct between sub-Treasuries or between a sub-Treasury under one Treasury and another Treasury. Another matter for consideration is the extent to which facility for the encashment, by sub-Treasuries and local branches of the Imperial Bank, of cheques drawn by central banks against the Provincial Bank can be given. Without these facilities it is not possible to open current accounts and generally to carry on banking transactions at co-operative banks situated in mofussil towns. In order to make the position of Government Treasuries and the Imperial Bank of India quite secure, a satisfactory undertaking may, if necessary, be demanded from the Provincial Bank to honour cheques drawn by the central banks and encashed, and also a suitable security can be arranged and lodged for the purpose. The extension of these facilities to co-operative banks means neither any risk nor any loss of interest to Government. The burden of providing banking facilities in small mofussil towns, due to the peculiar condition of the country, is very heavy on co-operative banks, and when strong institutions like the Imperial Bank of India enjoy the privilege of having a free use of large Government balances, it is not too much to ask for the above facilities in favour of co-operative banks.

(d) The problem of long term capital required for the movement has not yet received the serious attention it deserves. For redeeming the debts of the existing members of societies and granting them loans for land improvement, long term capital is required in this Province. In Bombay and the Punjab this question has been satisfactorily solved by floating long term debentures with interest on them guaranteed by Government and a similar concession in favour of other Provincial banks, especially those situated in Provincial Capitals possessing limited credit facilities with limited trade and commerce, is very necessary. It is clear that if the unfavourably situated Provincial co-operative banks make attempts to float long term debentures without Government guarantee, they are not likely to be successful. The Royal Commission on Agriculture in India, in discussing the form of State-aid to the movement, recommended that the most suitable form in which the State-aid can be given to it was by guaranteeing interest on debentures repayable after long periods, with a view to provide the needed long term capital at a reasonably low rate of interest.

(e) In Bombay the local Government provides for long term loans for improvements in lands by annually advancing a certain sum under the Land Improvement Loans Act. The practice here is for Government to place an allotment of about three lacs at the disposal of the Registrar of Co-operative Societies who passes on that money to the Provincial Bank in current account, and funds out of that allotment are advanced by the Registrar jointly with the Board of Directors of the Provincial Bank. The period of repayment from the Provincial Bank to Government is the same as between the members and their societies, with an allowance of 2 to 3 years. The maximum period of loans granted for improvements in lands is 20 years and the minimum is 5 years. Before the introduction of co-operative credit Government used to make Tacavi advances to agriculturists. These advances have largely stopped now and the money so saved could with greater saefty and economy be

advanced to the Provincial banks on their credit and security for the purpose of making long term advances to societies, as is being done in Bombay.

(*f*) With a view to encourage banking habit in the people and to facilitate payments by bank adjustments as far as possible, Government and public bodies should be permitted to accept payments by cheques on co-operative banks.

(*g*) As a rule, the profits of co-operative banks in India are exempted from the operation of the Indian Income-Tax Act, but the co-operative banks are required to pay income-tax on taxable Government and Trust securities held by them. As income on Government securities also forms a part of the profits of co-operative banks, to charge income-tax on securities held by them is a curious deviation from the accepted principle under which such profits are exempted. This anomaly requires rectification at an early date.

(*h*) The Imperial Bank enjoys the privilege of holding large Government balances, free of interest, at Government Treasuries where it has got branches. It is unlikely that the Imperial Bank of India will be able to open branches in the near future at centres of petty trade, where generally the co-operative banks have offices. Where there is no branch of the Imperial Bank of India, and where the central banks are functioning satisfactorily there does not seem any strong reason why the latter should not be recognised as agencies for the management of Government sub-Treasuries and Treasuries, in view of the fact that these banks are managed under Government supervision and control.

(*i*) The relations of this Provincial Bank with the Imperial Bank of India are happily very satisfactory so far. However, the conditions under which cash credits are granted by the Imperial Bank of India to the different Provincial banks vary in different Provinces. In Bihar and Orissa the Provincial Bank was enjoying a cash credit of rupees four lacs against the promissory notes of its guarantee shareholders at the concession rate of half a per cent. below Bank rate since the year 1914. This half a per cent. concession was given to the Bihar and Orissa Provincial Co-operative Bank due to its weak position and enabled it to give some commission to its guarantee shareholders for the liability undertaken by them for meeting the calls of the Imperial Bank. It has been withdrawn by the Imperial Bank since November 1929. The Imperial Bank had also granted an overdraft of Rs. 2,85,000 to this bank against Government securities of rupees three lacs lodged with it at half a per cent. below Bank rate. The concession of lower rate on this overdraft account has also been withdrawn from the 1st July 1930. As the State bank of the country, the Imperial Bank, instead of withdrawing concessions which it has already granted to Provincial banks, should instead have granted extra concessions in the shape of long term loans at concession rates. As, however, the policy of the Imperial Bank changes often it is necessary that the facilities at present enjoyed by co-operative banks from the Imperial Bank be put on a footing of contractual guarantee and those facilities be extended by making provision for financing co-operative banks under specially favourable terms, such as of granting long term loans for periods over twelve months at Bank rate on the promissory notes or bonds of Provincial Banks with fixed instalments, and cash credits and short term loans for twelve months and under on demand promissory notes at one per cent. below Bank rate.

IV.—Banking Education.

1, 2 & 3. There are no facilities in this Province for education and training in banking. The Patna University has not yet been able to establish a

degree in commerce due to the want of satisfactory openings for candidates who leave the University after this training. The Co-operative Federation of Bihar and Orissa has recently established a Training Institute for training candidates for employment in co-operative banks. The number of central banks in the Province is 67, which is nearly three times the number of branches of all the joint stock banks including the Imperial Bank, functioning in this Province. In addition to central banks, there are several Peoples' Co-operative Banks and other banking societies, with limited liability, also functioning in the Province. The object of the Training Institute is to train the requisite staff for all these co-operative banks. The Institute is run entirely from contributions raised from co-operative banks at an estimated annual expenditure of rupees twenty thousand. The training imparted still leaves much to be desired, but without Government assistance, whose duty it is to provide facilities for education and training in all lines of public activities, the institute cannot be more useful than at present.

The staff of co-operative banks in the Province is mainly recruited from candidates trained by the Co-operative Federation and all such employees are required to hold licenses from the Registrar of Co-operative Societies who is the *ex-officio* Governor of the Co-operative Federation. No co-operative bank, affiliated to the Co-operative Federation, can employ any assistant, who does not possess a license from the Governor of the Federation. The licenses are renewable annually, but the Governor has recently passed orders whereby an annual renewal is now not necessary. These licenses are granted to bank employees by the Governor of the Federation independently of the local Provincial Bank, but a proposal to have such licenses countersigned by the Provincial Bank is under consideration at present. In order to enable the Provincial Bank to affix its signature to the licenses of co-operative bank employees, it is intended to have the examination of the Training Institute conducted by the Provincial Bank and to hold any additional tests it prescribes.

The Training Institute imparts only theoretical training at present, but the candidates receive practical training in co-operative banks which employ them.

The local joint stock banks, including the Imperial Bank of India, do not provide any facility for the practical training of candidates in banking. The Imperial Bank of India mainly recruits its higher staff from the United Kingdom, but a few Indian recruits have also been taken by it. In other joint stock banks, excluding the Allahabad Bank which recruits its higher staff from the United Kingdom, the staff is recruited in India. In all banks the clerical staff is recruited entirely in India.

5. The Indian Institute of Bankers, which has recently been established, is conducting periodical examinations on the lines of the British Institute and issuing a journal. When the Indian Institute of Bankers was started, not one of the co-operative banks was consulted. Even now there is not a single representative of the co-operative banks on the governing body of the Institute. These mistakes require rectification. With a view to enable the co-operative banks to take advantage of the training facilities granted by the Indian Institute of Bankers, the subject of co-operative banking should also be included as a subject for the examination periodically held by the Institute.

V.—General Banking Organization and Money Market.

1. The two chief defects of the present organisation of banks and the money markets of the country are (*a*) the lack of a definite relationship between

the various banking agencies, including Government and the Imperial Bank of India and (*b*) the lack of elasticity of currency.

The Imperial Bank possesses a large number of branches throughout the country and is in a position to mobilise money from almost all districts, but there is little connection between the Imperial Bank and the indigenous bankers with the result that rates for money in the central and mofussil shroff bazars very often indicate a position which is very different from the position indicated by the prevailing loan rate of the Imperial Bank of India. Government still continues to be the biggest banker in the country with its net work of Treasuries, sub-Treasuries and Post Offices. The connection between Government and the indigenous bankers is less than between the Imperial Bank and such bankers. In big cities the relationship between the Imperial Bank and the indigenous bankers appears to be closer than in mofussil towns where accommodation to such bankers is not granted as freely. The linking of Government Treasuries and sub-Treasuries with the indigenous bankers appears to be more important than the linking of the Imperial Bank with such bankers, as by so doing a far greater number of centres will be served. The only institution which can serve as a link between Government Treasuries and sub-Treasuries and the indigenous bankers is the co-operative bank, if the latter is permitted to discount bills.

Without an elastic currency the trade of the country must suffer. By elasticity of the currency is not meant the increase or decrease in currency as will suit the requirements of Government, but a system of currency which will automatically expand and contract in accordance with the needs of trade. However well-intentioned a Government might be, it can hardly be expected to be in so close a touch with the position of the trades of the country as accurately to gauge the requirements of trade and provide the currency requirements as and when needed. Even if this is done, the expansion and contraction of currency could hardly be considered spontaneous. This requirement can only be supplied by the organisation of a Central Bank for the country with power to issue notes and to discount trade bills. The seasonal stringency and slackness in the money markets of the country will be greatly mitigated if a Central Reserve Bank is established.

3. With a view to facilitating an immediate clearing of cheques of constituents and thus to encourage banking habit, it will be advantageous if clearing houses can be established at places possessing more than four branches of different banks. Rules regarding the admission of banks to clearing houses also require to be relaxed and admission should not generally be refused to banks unless there are very strong grounds for doing so.

7. The management of co-operative banks is economical for it is still partly honorary and where the services are paid for, the salaries of even the higher officers are smaller than those of men occupying similar positions in commercial banks, because men are attracted by idealism and love for the movement. The co-operative banks are bound by statutory rules to maintain certain standards of fluid resources and are also precluded from declaring high dividends. They are required to contribute 25 per cent. of their annual net profits to their reserves and so they succeed in building up good reserves from their limited profits. The constitutions of all co-operative banks provide for an adequate representation of the borrowing members on their Boards of management, and, therefore, the rates charged by them on advances are generally as low as are consistent with safety.

14. For augmenting the resources of banks, indigenous capital is preferable to foreign capital. The Gold Standard and Paper Currency Reserves, now maintained in the United Kingdom, should be transferred to India and diverted to long term investments in co-operative land mortgage banks. The funds of the Indian insurance companies can with advantage to both be utilized in advance to land mortgage banks. A portion of the receipts from cash certificates and postal savings bank deposits should be made available to the local joint stock banks and the co-operative banks. In Bihar and Orissa, the Provident Fund deposits of the employees of District Boards and Municipalities are allowed to be invested in the Provincial Bank. If the idle funds of these semi-public institutions are also permitted to be invested in the Provincial Bank and other co-operative banks, they will not only earn a suitable interest, but will be useful for financing the agricultural industry of the Province and will also be secure.

No. 13.

Statement of evidence submitted by the Managing Director, the Bombay Provincial Co-operative Bank, Limited, Bombay.

Regulation of Banking.

III.—3. If the term "bank" is to be defined and its use is to be restricted, the Board suggest that the definition should be so framed as to include societies registered under the Co-operative Societies Act. The use of the word "bank" in their names should be permitted, however, only to societies with a minimum working capital of rupees one lakh.

4. All types of banking business should be open to co-operative banks subject to the restrictions prescribed by the Co-operative Societies Act and the Rules framed under it as well as those contained in the bye-laws of the various organizations which, it may be added, are subject to the approval of the Registrar of Co-operative Societies. It is possible for the Registrar, in virtue of the specific authority conferred on him by law and also in the exercise of his power to sanction bye-laws, to regulate the relations of co-operative banks with non-members. The Government of India appear to hold that the buying and selling of bills of exchange for profit is outside the sphere of operations of co-operative banks. This view of theirs is not borne out by the prevailing practice among the co-operative banks of Europe. The Peoples' Co-operative Banks of Italy, as any student of banking knows, have contributed more than any other agency to the development of banking facilities in that country, while co-operative banks in other countries conduct and quote terms of business not only for arranging remittances within their own countries but even interest themselves in foreign exchanges and are anxious to build up connections with co-operative banks in other countries for the better conduct of their business.

13. Co-operative societies and banks are entitled to the grant of concessions for the following reasons :—

(1) They are corporations consisting of persons of small means.

(2) The amount of a person's interest in a society is limited by statute, for under the law an individual cannot hold shares exceeding Rs. 1,000 in value, the limit being fixed at Rs. 3,000 under the Bombay Co-operative Societies Act.

(3) The profits cannot be distributed until twenty-five per cent. have been carried to the reserve fund which is indivisible at liquidation.

(4) The maximum return on share capital is prescribed either by statute, as in the Bombay Presidency, or by rules, as is the practice in other provinces.

(5) When bye-laws are framed, a limit lower than even that prescribed under the statute is occasionally sanctioned.

(6) There is a practice among several co-operative banks to divide their profits with borrowing customers after the payment of a stipulated return on capital.

(7) The idea of profit making as such is eschewed by such banks and they exist to render service to the community on terms which just enable them to meet expenses, including remuneration on capital.

In addition to the existing concessions enjoyed by co-operative banks, the Board suggest that exemption should be granted to co-operative banks from payment of income-tax on income from investments on Government securities and from super-tax.

Apart from the general grounds set forth above, the Board would like to point out that when co-operative societies are exempted from payment of income-tax in respect of their profits it is not fair to charge them super-tax which is defined as an additional duty of income-tax. This is being done on the ground that specific exemption from super-tax is not contemplated by the statute, though as a matter of fact the term super-tax was itself not thought of by the Inland Revenue authorities when the Co-operative Law was passed by the legislature in 1912. The Bombay Act passed in 1925 does provide for the grant of exemption from super-tax by the issue of a notification by the Government of India.

Banking Education.

IV.—1. There are practically no facilities for education in co-operative banking in the existing system of secondary and higher education in the Bombay Presidency, except that students of Economics for the degree of Bachelor of Arts and of Banking for the degree of Bachelor of Commerce have some opportunity of becoming acquainted with the theory and principles of co-operative banking.

2. Co-operative banks recruit their staff :—

(*a*) from graduates who have studied economics for the B. A. degree and banking or accountancy for the B. Com. degree ;

(*b*) from other graduates in arts, commerce, or agriculture (specializing in agricultural economics);

(*c*) from holders of the Government Diploma in Accountancy ;

(*d*) from others who have passed commercial or co-operative examinations ;

(*e*) by promotion from their own clerical staff ;

(*f*) by selection from the staff of other local co-operative institutions ;

(*g*) by direct appointment of persons with experience in banks or commercial firms.

Apprentices, both salaried and non-salaried are entertained by the Provincial Bank and by some other banks as well. This system has proved useful in training up junior workers for all grades of co-operative institutions.

3. Students for the Co-operative Bank Managers' and Bank Inspectors' Examinations conducted by the Provincial Co-operative Institute, Bombay, have to undergo a course of practical training at the Provincial Bank and its affiliated institutions for which all facilities are provided by this and other banks. The course of training extends over a period of three to six months and the students have to maintain detailed notes of their work which are taken into consideration at the time of awarding diplomas.

The Board would like to suggest that the Provincial Co-operative Institute, Bombay, which arranges these courses of training should be assisted by Government in conducting a regular school for imparting higher type of training in co-operative banking and accountancy. This would prepare

students for the following examinations and be empowered to arrange for practical training in collaboration with the co-operative department and co-operative banks, provincial, central and urban :—

(1) Urban Bank Managers' Diploma ;

(2) Central Bank Managers' Diploma ;

(3) Bank Inspectors' Certificate ;

(4) Government Diploma in Co-operative Accountancy.

Co-operative banking should be introduced as a special subject for the degree of Bachelor of Commerce, and the examinations held by the Indian Institute of Bankers, as well as in the lower commercial examinations conducted by Government. In the syllabus for the degrees in Arts with economics and of Agriculture with agricultural economics, the subject of co-operation, particularly co-operative credit, should receive greater prominence and more attention than is the case at present. Special lectures for these subjects can very well be organized by the Co-operative Institute in consultation with the institutions concerned.

4. The Board invite attention to the recommendations made by the Royal Commission on Agriculture in India in paragraphs 376 and 389 of their Report with regard to the provision of facilities for the study of co-operative developments in India and abroad, but would add that such facilities should not be confined to the staff of the co-operative department but should be extended to the officers of co-operative banks and other institutions. In fact, in a province like Bombay where, by convention, a large degree of initiative is enjoyed by co-operative institutions the need for the higher training of the staff of banks, of unions and the institute is as keen as for the training of officers of the Co-operative Department.

8. This Bank has now 27 branches located at different centres in the Bombay Presidency and the Board have so far experienced no difficulty in manning those with a reliable staff possessing some knowledge of banking methods. The lack of trained and qualified staff has not stood in the way of the development of branch banking in the co-operative organization of the Bombay Presidency, and if the Board can generalize from their experience, they would assert that it is no lack of trained and qualified staff that really deters joint stock banks from extending the branch system. They can easily secure qualified staff should they seriously choose to embark upon that policy, and there are fair prospects of remunerative business being secured locally.

General Banking Organization.

V.—14. The Board are definitely of opinion that a proportion of the receipts, from cash certificates and savings bank deposits should be made available, preferably through co-operative agency, for financing agriculture and small industries. The Board feel that the draining away of capital through these sources is detrimental to the interest of agriculture and local industries, because the reduction in the supply of capitals available for local investment naturally tends to raise the local lending rates of interest and the funds that may have been deposited with local bankers, joint stock or co-operative banks, are diverted, because of the higher rates of interest payable on cash certificates to the Government of India, for employment in unproductive enterprises or schemes which are of no benefit—direct and occasionally even indirect—to rural areas. The Board may note here that it is the

practice in several European countries and even in the British Isles to treat local savings banks as independent entities utilizing, subject to statutory safeguards, the local resources tapped by them in local productive and remunerative enterprises.

The proceeds raised by means of cash certificates may be used for developing a system of intermediate credit for agriculture and for the capital requirements of small industries and the money tapped through the postal savings banks could be made available for short dated agricultural loans or for trade credit to artisans. The Board suggest the entrusting of these funds to co-operative agency for three reasons, firstly, because they are composed or are representative of persons of small means, secondly, because they do not seek to make profits at the expense of the community they serve, and thirdly, because their operations are supervised by a department of the State.

15. The Imperial Bank of India's policy in regard to the grant of credits to the co-operative movement has undergone a change for the worse recently. The first step in this direction was the stiffening of the terms of credits allowed to the provincial bank of one province on the score that in another province, with different local conditions, both co-operative and financial, higher rates of interest were charged and more exacting terms prescribed. On the plea of uniformity, instead of the terms of business being liberalized, they were screwed up all round. Then, in the Bombay Presidency, the cash credit of 8 lakhs allowed to the apex bank was first reduced to 4 lakhs, because the total credit was not being drawn upon. And later on, even the credit of 4 lakhs was stopped on the ground that the Provincial Bank had issued debentures with a floating charge on the general assets of the bank. But the debentures have been an integral part of the Provincial Bank's financial machinery ever since the commencement of its working and the Bank of Bombay examined the legal validity of their claim on the pronote. of co-operative societies, endorsed in their favour, when it first allowed the credit in 1916-17. The question was raised later on by the authorities of the Imperial Bank of India who were satisfied with the exposition of the legal position as put forward by this bank's solicitors. Nothing has occurred in the intervening period to change the legal aspect of the position.

The Board understand that in Madras Presidency the Imperial Bank of India have practically decided to close the long standing arrangements for the grant of cash credits to co-operative banks on the security of the pronotes of societies, and in Bombay, in some centres where overdraft facilities were being granted to district banks on the security of Government paper these facilities are being withdrawn or curtailed, it is explained, on the ground that the facilities are not being fully utilized. It may be added that, to the Provincial Bank in Bombay, overdraft facilities are being denied even on the security of its large holdings in Government paper.

The only other facility that the Imperial Bank of India extended to co-operative banks in the Bombay Presidency was the encashment at their local branches of cheques drawn by selected co-operative banks on their accounts at the apex bank (including drafts or branches of the Provincial Bank on the Head Office) within maximum limits of Rs. 5,000 and Rs. 10,000 fixed in consideration of the size of the local banks. The Provincial Bank guaranteed payment against the cheques or drafts when presented at its office in Bomd bay. This facility has recently been withdrawn by the Imperial Bank, anes although when it was allowed there was no restriction placed on the purposal for which the money was to be used, later on, the authorities of the Imperial Bank of India insisted that the proceeds of the encashed cheque or draft were not to be used for the purchase of local demand bills of exchange.

The Imperial Bank of India functions as Government's agents in the matter of transmission of funds from one centre to another, and hence where they have their branches, in lieu of Remittance Transfer Receipts, co-operative banks have to obtain demand drafts on Government's account at par. Although the use of R. T. R.'s free of charge is a concession granted to co-operative societies by the Government of India, the authorities of the Imperial Bank of India seem to imagine that at centres where they operate it is a concession granted by themselves. Under this impression, they attempt to hamper the transfer of funds between local co-operative banks and their apex bank, hedging it round with conditions. A note is attached giving the full details of the attitude of the Imperial Bank of India towards inland exchange business conducted by co-operative banks at centres where they have their branches. The Board suggest that the Government of India be moved, in the light of practice abroad and the need for developing banking and remittance facilities through all possible channels in rural India, where co-operative banks are the only organized institutions operating, to recognize that inland exchange business is a legitimate function of co-operative banks. Clear instructions should also be issued to the Imperial Bank of India that they have no authority to interfere with the enjoyment by co-operative banks of any facility granted to them by Government. As banking facilities are still undeveloped in most parts of the country, the concession of free transfer of funds through the Treasury should continue to be enjoyed by co-operative banks subject to limits, if any, imposed by Government themselves, for particular " centres or in respect of particular " type of co-operative societies.

In view of their experience with the Imperial Bank of India, the Board are definitely of opinion that co-operative banks cannot depend upon the Imperial Bank of India for any facilities and that it is only a State Central Bank that co-operative banks can look up to for assisting them in the very responsible work of financing and providing banking facilities in outlying areas for agriculturists and other persons of small means. In case, no such bank comes into existence in the near future or Government are not in a position to secure the grant of the facilities required, the Board think that apex banks in various provinces may have to combine to form their own All-India Co-operative Bank to which certain special privileges will have to be allowed as in other countries.

18. On the lines of facilities and concessions which are allowed to the Imperial Bank of India, the Board recommend that the following may be extended to co-operative banks under such safeguards and subject to such restrictions as may be decided upon :—

(1) The management of sub-Treasuries in centres where there are no branches of the Imperial Bank of India may be entrusted to approved co-operative banks or branches of co-operative banks located at taluka head quarters. Besides facilitating the treasury work of Government, this would enhance the status of co-operative banking in the public mind.

(2) Where this is not possible the cheques drawn by co-operative banks on the apex bank or drafts issued by branches of the apex bank on the head office should be encashed by treasuries, including those run by the Imperial Bank of India within specified limits. Generally, those drafts will be presented for encashment in seasons when the treasuries are flushed with surplus balances and thus the treasuries will be practically relieved of the responsibility

for and cost of transfer of funds to head quarters. But should it be found that such transfers involve Government in expenditure they can fix some reasonable charge for the facility. This will enable co-operative banks to develop deposit banking and arrange for prompt issue of loans to agriculturists in outlying centres where no banking facilities obtain at present.

(3) When agriculturists pay in land revenue through local sub-Treasuries the funds are transferred to the provincial or district head quarters, which money is utilized for the seasonal finance of industry or commerce through the Imperial Bank of India. Only a portion of the revenue is utilized for the finance of local trade and commerce and the agriculturists that pay the land revenue get no facilities at all. On the contrary, because of the lack of staying power, they dispose of their crops and dump goods on the local market as soon as the harvesting operations are over, and suffer, as a consequence, in the matter of prices. Arrangements should be devised to enable agriculturists to get finance against their harvested crops by placing funds at the disposal of local co-operative banks out of the accumulated balances in sub-Treasuries. Government might charge normal interest on funds thus made available and insist on co-operative banks passing on the money to agriculturists after recovering only a stipulated margin for their work and expenses.

(4) Clause 20(*c*) of the Indian Trusts Act recognizes as trustee securities the shares or debentures of a railway or other company, the interest on which is guaranteed by the Secretary of State for India in Council. The term "company" does not cover societies registered under the Co-operative Societies Act, and besides, the debentures of co-operative land mortgage banks will have the guarantee, not of the Secretary of State but of the Government of the provinces concerned. A suitable change will have to be made in the law to extend recognition to the debentures of co-operative land mortgage banks. Further, following the example set by the British and Irish Governments, the Governments of various provinces should subscribe to the debentures of their provincial land mortage banks, transferring their holdings in the share capital to local co-operative interests as the movement develops. Government should also, with a view to securing sound and efficient management, grant subsidies to these bodies for their preliminary expenses for organization of business and for engaging the services of qualified valuation officers. When the central state bank is established, this responsibility of assisting in the floating and popularizing of the land mortgage debentures should be vested in it by statute.

NOTE.

(1) One of the concessions granted by Government to co-operative societies is the issue of R. T. R.'s free of charge between co-operative societies and their creditors or between co-operative societies themselves. Where the local Treasuries are managed by branches of the Imperial Bank of India such transfers are effected by the bank by drafts on Government account at par in lieu of R. T. R.'s.

(2) This facility for transfer is unrestricted at District Treasuries, subject to a minimum figure of Rs. 150.

(3) For remittances to and from sub-Treasuries, limits for a day's or a week's transactions are prescribed, when the Deputy Controller of Currency grants permission.

(4) Co-operative banks, urban and central, were advised and encouraged by the co-operative department with the approval of the Government of Bombay to undertake all types of banking business including the opening of current accounts, the use of cheques, and the provision of facilities for transmission of funds. Such business is being freely undertaken by the Peoples' Banks of Italy and other co-operative banks all over Europe.

(5) It was the practice for co-operative banks to remit to Bombay the proceeds of drafts or hundies issued by them through the Treasury and to obtain from Bombay funds through the Treasury for purchasing demand bills locally.

(6) As one Treasury officer (Belgaum) complained that this threw additional work on Government staff for which Government got no remuneration while the local bank made a profit, the Government of Bombay made a reference to the Government of India.

(7) The Government of India in their Resolution (Department of Land Revenue and Agriculture) No. 14/174/3 (published under G. R. F. D. No. 2760 of 22nd December 1920) ruled that "the buying and selling of remittance was not consistent with the principles of co-operative banking and that the concession (of free R. T. R.'s) had not been made to enable co-operative societies to carry on a commission business". It was ordered that auditors should check the extent to which the privilege was being used for the buying and selling remittances on commission and to bring to the notice of the Registrar instances in which this was being done.

(8) This view was unacceptable to the co-operative movement in the Presidency and the question was raised by the Registrar at the Registrars' Conference of 1927.

(9) The Conference agreed that inland exchange business was not opposed to co-operative principle, provided always that the idea of mere profit seeking was rigidly excluded, but it was not prepared to recommend the use of the R. T. R. concession for this business.

(10) The Government of India, in their orders on the Conference Resolution No. 1562 of 17th August 1927, published under G. R. R. D. No. 3755/24 of 14th October 1926 that the buying and selling of remittance for profit is not a legitimate part of the operations of co-operative banks.

(11) The Imperial Bank of India at places where it had branches, before issuing drafts either way, commenced insisting on co-operative banks certifying that the proceeds of the draft applied for would be utilized strictly for transactions such as remittances in the shape of calls, deposits and payment and repayment to or by societies.

(12) The Registrar did not agree with the procedure introduced by the Imperial Bank and addressed Government (B. C. B.-18 of 19th April 1927) requesting them to review the position and, if necessary, introduce restrictions.

(13) A Conference was convened by the Finance Member in June 1927 when this bank was advised, on behalf of the movement, to approach the authorities of the local head office of the Imperial Bank of India.

(14) The authorities of the Imperial Bank took their stand on the orders of the Government of India and refused to reconsider their decision so long as the Government of India could not be induced to change their ruling.

(15) The all-India Provincial Banks' Conference approved of co-operative banks conducting this business and of free remittance being allowed within limits in centres where there were no other banking facilities available.

(16) The authorities of the Imperial Bank of India are, however, not satisfied with the certificates given and practically want the business to be stopped altogether at places where they have branches, even if co-operative banks do it out of their own resources and do not remit either way through the Imperial Bank of India on Government account at par.

(17) Co-operative banks have offered to restrict business to (*a*) customers having current accounts and (*b*) to their own members; and also to refrain from quoting competitive rates. The Imperial Bank of India is, however, not satisfied.

(18) At the Dhulia branch of this bank, the Imperial Bank's local branch now refuses to issue drafts on Government account at par for any purpose (although the Imperial Bank functions merely as Government's agents in this respect).

(19) The Imperial Bank have informed this bank that the facility allowed to co-operative banks of encashing their cheques on this bank at par upto a maximum of Rs. 5,000 is to be discontinued with effect from 31st January, while the Registrar has been informed that all concessions have been withdrawn.

(20) At Dhulia, considerable inconvenience is caused to the bank's branch and its customers as well as to local co-operative societies by the refusal of the Imperial Bank to give coins in exchange for notes and to issue currency notes of smaller denominations.

(21) Previously, drafts on Bombay were not issued on one day and issued the next, thus causing loss of interest to the branch and credit was not given for cheques favouring the Imperial Bank drawn on the head office under arrangements referred to under (19).

No. 14.

Letter from the Secretary, the Coimbatore District Urban Bank Limited, No. 1680, dated the 31st January 1930.

I have the honour to forward herewith replies to a few questions of the questionnaire issued by the Committee, as approved by the Executive Committee of this bank.

1. All joint stock companies, whether registered under the Indian Companies' Act or the Co-operative Societies' Act, should be audited by auditors appointed by Government, and, if possible, in Government employ.

They should be men trained in banking, audit and book-keeping. The cost in the cases of co-operative societies and joint stock companies with a capital of Rs. 50,000 or less, should be borne by Government itself, and in other cases, by a levy from the institutions concerned.

3. Some difference ought to be made between the small institutions called "Nidhis" or "Funds" in this Presidency and the regular banks. We would restrict the name "bank" to institutions which negotiate bills, finance trade and deal with a capital of at least five lacs. There should be some Government control of institutions with small capitals like nidhis and funds.

8. There ought to be a periodical independent examination of accounts and actuarial valuation of assets and liabilities.

In most cases, shareholders borrow money on the shares in the institution itself, with the result that they have practically no interest in its working. This borrowing on share capital should be prohibited.

There ought to be some provision for amalgamation or reconstruction. We would press for the amalgamation of several of the registered nidhis to form a good bank. Recently, there was some difficulty felt in the amalgamation of the Coimbatore Spinning and Weaving Company, and the Mall Mills. Since there was no provision for amalgamation, they had to go through the form of liquidation of the Mall Mills and face a number of difficulties and delay.

13. The co-operative banks occupy a special place as the only banks mainly intended for financing agriculture and ryots, and as such they deserve a special consideration. In addition to the present concessions, we would recommend the continuance of audit by qualified auditors under Government employ, free of cost, exemption from M. O. fees and local taxes.

The companies have to pay income-tax and profession tax. It is only reasonable that they should not be taxed twice, once for central and then for local purposes.

IV.—Banking Education.

1. There is no provision for banking education in any of the colleges in this Presidency. There are two commercial schools, one at Calicut and the other at Vizagapatam. Boys trained in these schools get employment

in European firms ordinarily. There is a school newly started by Government and located in Madras where instruction in Banking, Book-keeping, audit and economics upto a medium standard is given. Intermediates and graduates are mainly recruited for this training. The Co-operative department will increasingly be recruited from those who have undergone such courses of study.

There are five schools under the management of co-operative non-official institutions, located at Coimbatore, Vellore, Tanjore, Anantapur and Bezwada, where those who have passed at least the S. S. L. C. course are admitted. Banking, book-keeping, audit, co-operation and Co-operative Law of an elementary character are taught in these schools. Those who have passed through these institutions are recruited for employment in co-operative banks and unions and as co-operative supervisors and inspectors.

There is no co-ordination.

2. Banks do not provide any facilities for the training of boys.

7. The indigenous bankers are generally persons belonging to particular castes or families, and they are trained in the old method by working in the banks.

8. It is expected that there will be a large demand for persons trained in banking, book-keeping and audit in private banks and joint stock companies. These three subjects will have to be taught together.

V.—General Banking Organisation and Money Market.

15. The Imperial Bank of India is contracting its usefulness in various ways.

So far as co-operative banks are concerned, even though the past experience does not demand it, they have contracted their overdrafts. Even with regard to industries, there have been complaints from Indian commercial men and industrialists that the bank has contracted its credit, and its sudden action in this direction sometimes puts them in a very difficult situation.

No. 15.

Statement of evidence submitted by Sardar Kartar Singh Sandhu, B.A., P.C.S., Registrar, Co-operative Societies, Ajmer-Merwara.

III.—Regulation of Banking.

Q. 1. As far as the co-operative societies and banks are concerned their audit is governed by the provisions of Section 17 of the Co-operative Societies Act II of 1912. Duty of this annual compulsory audit devolves on the shoulders of the Registrar. Every society must be audited once at least in 12 months, either by the Registrar himself or by other person appointed by a general or special order in writing for the purpose by the Registrar. Generally, the Registrar does not audit the accounts himself, but in order to discharge the trust reposed in him by Section 17, he appoints competent persons to conduct the audit to his satisfaction.

The duties of the auditors are embodied in detail in Circular No. 126-S.,* of the Registrar, Co-operative Societies, Punjab, which has been applied to Ajmer-Merwara as well. Besides, the co-operative auditor has to conduct a thorough audit on the spot and must evaluate the assets and liabilities and overdue debts. They are not critics but advisors, sympathisers and friends. Their suggestions are not mandatory but practicable. They have to remove the defects themselves.

As regards the qualifications of auditors it may be said that for very big institutions and for those of technical and special nature, *e.g.*, stores, certified or chartered auditors are appointed.

For urban banks and societies to keep uniformity, a chief auditor, for whose pay the Government gives an annual grant, is employed.

For the audit of rural societies experienced and senior grade sub-inspectors are appointed. Their selection, training and knowledge of the local conditions are their best qualifications. At present, auditors for rural societies are paid from audit fees levied on their profits. The chief auditor for urban societies is also paid from the same fund which also receives contributions from urban societies according to fixed rules. Government also gives a grant to this fund. The certified and chartered auditors are paid direct, after the audit, by the respective institutions. The fees, etc., being fixed by the Registrar.

The entire cost of the audit should be met with by Government, and the posts of the auditors should be made Government, to enable the auditors to become public servants and to carry a better confidence of the people.

The audit, besides being compulsory, should be made free. This concession, if conceded, will not be an act of philanthropy but a completed and full discharge of a serious responsibility imposed on the Registrar.

The societies which are small institutions and aim at service rather than profit are handicapped in the building up of their reserves, which account for the stability and confidence of the society. It is a fiscal concession, recommended in conformity with the discharge of a compulsory responsibility. It will be a well placed privilege.

* Copy attached.

Question 4.

As far as the co-operative banks are concerned, the sphere of their operations is already defined in Sections 4 and 6 of the Co-operative Societies Act II of 1912 and the preamble. The general principles, according to which and the classes for which co-operative societies can be started are embodied in the above referred section. Co-operation aims at 'service' of man. Hence to restrict or define "service" is to strangle the same. "Service" should be as universal and cosmopolitan as possible. There should be no consideration of creeds and persons. Co-operation is the refuge of all, since it claims to be "Panacea" for all economic ills.

Co-operative societies can under the law only deal with their members, the primary societies with their individual members and the central banks with their affiliated societies. Further impositions have been placed on the operations of the co-operative banks, *vide* Sections 5, 29, 30, 31, 32, 33 and 34.

Question 11.

Yes. As regards protection of current accounts and other depositors there should be a distinction,

(1) 50 per cent. should be kept in reserve for current accounts.

(2) 25 per cent. should be kept in reserve for savings bank account, and 12½ per cent. for fixed deposits.
These limits should be fixed by law.

(3) Amounts in current accounts and savings bank upto Rs. 500 by each individual should be exempt from attachment in execution of decrees.

A special class of deposits, with a minimum period of at least 10 years, which may be called "Provident Fund" or "Specific purpose" deposits should be recognised. They should have the following privileges :—

(1) should carry a higher rate of interest since they will be long term investments with the banks,

(2) should only be refunded for the stipulated object on its accomplishment and on the production of a certificate by the Registrar of Co-operative Societies.

(3) These deposits should be exempt from attachment to provide an incentive for savings for ceremonials and construction of buildings.

(4) These deposits should be non-transferable.

(5) Interest on such deposits should not be paid in cash but should be added in the books.

(6) These deposits should carry some preference in their payment after the bank is liquidated.

(7) The depositor should file a certified affidavit or registered documents to the effect that the amount will be deposited for such object and that it will be utilised on that very object.

Such certified affidavit or registered documents should carry no fees and should be granted gratis.

Question 13.

The following special concessions for co-operative banks are recommended :—

(1) The Imperial Bank should discount the pronotes of registered societies in favour of central bank and union.

(2) It should allow cash credits and overdrafts to central banks.

(3) Nos. 1 and 2 to be on the recommendation of the Registrar. These will increase a better feeling and co-ordination. The banking institutions will thus be in a position to fall back upon these 'assured resources' which form such an integral part in banking.

(4) The banks and societies should have free audit and the audit should be conducted by Government agency. This will relieve the societies of financial burden to some extent.

(5) The Registrar of Co-operative Societies should be vested with the powers to effect registration under the Registration Act, of the members of co-operative societies on the spot. This will relieve the agriculturists of the inconvenience, expenditure and distraction from agriculture.

(6) The societies should be exempted from the payment of fees on execution of awards.

(7) The co-operative societies should be exempted from the payment of income-tax on income derived from securities since societies aim at rendering service and not profit seeking.

They have to buy these securities under banking precautions and to keep them to fall back upon in time of emergency. They are purchased to secure confidence of the public.

(*b*) Co-operative banks have to pay income-tax and super-tax on securities held by them. The problem for their exemption has already been discussed by the Registrars' Conference at Bombay, and they were unanimous that co-operative banks should not be charged any tax of this kind.

IV.—Banking Education.

Q. 2. For the post of inspectors, the policy is to select young graduates with economics from agricultural classes. After their recruitment they are given a thorough grounding on the field. Then they have to appear in a co-operative training class.

The auditors are generally persons promoted from sub-inspectors, and they have a good knowledge of the department and the district. The sub-inspectors are generally young matriculates who are selected after personal interview, and considered to be physically fit for out-door duty. They have to undergo at least 5 months' field training and have to pass the Sub-Inspectors Training Class, after attending one month's course in theory and law.

In the central banks, the Board of Directors recruit the staff.

In the classes, both theoretical and practical training is given, besides the practical training obtained by the candidates in the field previously.

In India, Government should sanction grants which should be distributed in the shape of stipends to candidates, who should declare to serve the Department at least for a fixed period, else they should be liable to pay back the amounts received by them by way of stipends.

V.—General Banking Organisation and Money Market:

Q. 14. Agricultural industry at present is handicapped for want of long term credit to enable the rural people to redeem their lands and to effect improvements on the same by sinking new wells, by deepening old ones, by constructing bunds, nadies and tanks. This district, being particularly subject to frequent visits by famines and draughts, requires increased irrigation resources.

Funds for such productive and useful objects can only be tapped up from the public by offering them facilities and concessions of the nature described in reply to question No. 11. This also requires liberal subsidies, such as cheap long term loan from Government, to render full assistance and facilities to agriculture.

Cir. No. 126-S., dated Lahore, the 11th February 1928, to all Gazetted Officers and Inspectors, Co-operative Societies in the Punjab.

DUTIES OF STAFF. (DIVISION OF DUTIES BETWEEN AUDITOR AND SUPERVISOR.)

The Auditor.

(*a*) The Auditor will audit the accounts of a society. This includes a general meeting at the end to explain the balance sheet, and point out any errors, etc., he may have discovered. He will also discuss the audit note.

(*b*) At the time of the audit he will correct such mistakes as have come to light and can be corrected.

(*c*) He will impart some teaching, incidentally, but confine it generally to account matters: such as the making and use of the Register Had Qarza and Qistbandi.

(*d*) He should test the Annual Statements at the time of his audit.

(*e*) He should prepare, or help in preparing, the Register Had Qarza, at the time of audit.

(*f*) He should make a list in his audit note of those members who have agreed to the correctness of their accounts leaving in the proceedings book a list of those who were not present, for the supervisor to check at his next visit.

(*g*) He will send his audit note to the Inspector as soon as it is ready, recording thereon a certificate that he has left a copy with the society.

(*h*) Any suspected misconduct of a society's officer should be reported to the Inspector.

(*i*) He will not handle society's money in any circumstances.

(*j*) He will not be required to accompany any superior officer on tour, except when a special visit to a society may be necessary.

(*k*) Any disputes over accounts that come to light he should try to settle on the spot.

(*l*) Points arising out of an audit and requiring the immediate attention of the supervisor should be communicated to him forthwith.

The Supervisor.

The Supervisor will *supervise*.

(*a*) He will inspect the society and keep it working according to rules and act and bye-laws.

(*b*) He will supervise the work of the Secretary and Treasurer.

(*c*) He will impart teaching to the society.

(*d*) He will, if necessary, help in making the Qistbandi.

(*e*) He will, if necessary, assist in the recoveries.

(*f*) He will forward a list of demands, for the making up of the Central Bank's demand.

(*g*) He is responsible for the recovery of audit fee.

(*h*) He will prepare the annual statements.

(*i*) He will, if necessary, help in any revision of the Register Had Qarza.

(*j*) He will check the cash at each visit and see generally that the accounts are right.

(*k*) He will be responsible for arbitration and execution proceedings.

(*l*) He will see that defects pointed out by the Auditor or other Inspecting Officer are removed, and disputes settled.

(*m*) He will hold a general meeting at each visit.

(*n*) He will never handle societies' moneys.

(*o*) The Supervisor will do *propaganda*, according to instructions and local conditions, for all sorts of societies.

(*p*) The Supervisor will do all other *miscellaneous* work, generally, that has not been definitely allotted to the auditor.

M. L. DARLING,

Registrar, Co-operative Societies,

Punjab, Lahore.

No. 16.

Statement of evidence submitted by Mr. V. S. Bhide, Bar.-at-Law, I.C.S., Registrar, Co-operative Societies, Bombay Presidency, Poona.

A copy* of the replies to the Questionnaire of the Bombay Provincial Banking Enquiry Committee is forwarded herewith for the information of your Committee. As most of the points connected with finance of agriculture and small industries in towns, so far as it concerns the co-operative movement, have been dealt with in that statement, no attempt to reply to these and other questions of general banking with which the co-operative department is not directly concerned is made in this statement.

III.

1. Yes.

May be appointed by an Association of the joint stock banks in each Presidency.

Whether the business of the bank is carried on according to Act and bank's byelaws and whether the monthly, quarterly and annual balance-sheets and statements represent the true state of the bank's financial position. They must be expert bankers and accountants. The cost may be met by a levy of fees from the banks concerned in proportion to the capital. The experience of co-operative banks makes it clear that even a simple system of Government audit and inspection is of very great service in inspiring confidence in the minds of the investing public.

2. Yes.

Loans for longer period than six months, particularly in the case of industrial banks, should be allowed and in the case of larger industrial enterprises, larger limits will be required.

3. Yes.

The word 'bank' may be carefully defined. The bank should have minimum limit of paid-up share capital and in its Articles of Association should provide restriction in the granting of loans and discounting paper. It may definitely be provided that no managing director, secretary, inspector, manager or accountant, cashier or shroff should, without the special sanction of the Board, engage in any other banking or commercial business as principal or agent or act as broker or agent for sale or purchase of securities.

The progress of co-operative banks, both central and urban, has been discussed at great length in the statement which I have submitted to the Provincial Enquiry Committee. From the point of view of encouraging thrift and attracting deposits, a remarkable measure of success has been achieved by these banks. I am not in favour of restricting the sphere of activities and operations of co-operative banks in any way.

6. *Vide* 3 above.

9. Yes. Under the present system of commercial credit and banking facilities in the country there must be some source with power to issue credit to support solvent banks in times of monetary panic.

11. Small depositors may be given protection and preference by legislative measure. The banks' deposits with a Reserve Central Bank, if one is established, may be used for the purpose.

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* Not printed.

A special class of deposits, Provident Fund deposits may be created and amounts regularly invested in this class of savings may be protected from attachment under Civil Court decrees, and also allowed preference in case of failure of the bank.

13. The special concessions at present enjoyed by the co-operative banks should be continued, and the restrictions which the Imperial Bank is trying to impose on their use should not be allowed. (See statement—Provincial Committee).

IV.—Banking Education.

2 (2). The Provincial Co-operative Institute holds regular training classes for the training of staff employed by co-operative banks. A copy of the leaflet is attached.

As regards the staff employed by the co-operative department for audit of co-operative societies and banks, they receive special practical training for the work and are required to pass the G. D. A. or G. D. C. A. Examination.

THE PROVINCIAL CO-OPERATIVE INSTITUTE.

Central Education Board.

The accompanying courses of study for the Co-operative Examination are hereby published for general information.

The examinations will be held for all the courses except the first, which is meant mainly to promote general knowledge of the elements of co-operative practice. Examinations will be held in the subjects shown in the accompanying courses of study by the Central Education Board on dates which will be announced every year.

The Central Education Board has opened three Co-operative Schools at Surat, Poona and Dharwar and at these schools training will be provided for examinations in courses for Rural Secretaries, Supervisors, Bank Inspectors and Urban Secretaries, the medium of instruction being the local vernacular.

For the benefit of Members of Managing Committees and general public and of candidates desirous of appearing at any one of these examinations, training for examinations in courses for Rural Secretaries and Urban Secretaries will also be arranged for in vernacular by the District Institutes.

The school year will be from 1st July to 28th February, divided into two terms, the first term running from 1st July to 31st October and the second term from 15th November to 28th February, with 11 days' vacation for Christmas.

Only those who have passed the Vernacular Final Examination or have a working knowledge of English or are serving as Secretaries of Societies will be eligible for admission to the Rural Secretaries', Urban Secretaries' and Supervisors' course, while for admission to the Bank Inspectors' course the candidate must have passed the S. L. C. Examination, or the Government Clerical and Commercial Examination, or must be serving in a Bank.

The following scale of fees is laid down for the different courses :—

Rs.	15	.. for	Rural Secretaries'	Course.
,,	25	.. ,,	Urban Secretaries'	,,
,,	35	.. ,,	Supervisors'	,,
,,	40	.. ,,	Bank Inspectors'	,,

The Rural and Urban Secretaries' Certificate Examinations will be held twice a year on the 8th October and the 11th March respectively. Other examinations will be held once a year, only on the 11th March.

Training for Co-operative Certificate Examination, Co-operative Diploma Examination and the Bank Officers' Diploma Examination will be arranged for by the Provincial Co-operative Institute in English.

To pass, a candidate must obtain 40 per cent. of the total marks in each subject and in the *viva voce* examination, if any. Those of the candidates who obtain 60 per cent. or more and 50 per cent. or more of the total marks in the examination will be placed in the First Class and Second Class respectively.

In courses for Rural, Secretaries' and Urban Secretaries' Certificate Examinations, a candidate obtaining 30 per cent. or more but less than 40 per cent. of the total marks in each subject will be given the Secretaries' Junior Certificate.

Courses of Study.

I.—For Members of Managing Committees and the General Public.

No examination will be held for this course ; but District Institutes will arrange courses of lectures on the following subjects for them :—

(i) Aims and Scope of the Co-operative Movement ;

(ii) Types of Co-operative Societies ;

(iii) Constitution and Working of a Rural Credit Society ;

(iv) Duties and responsibilities of Managing Committee members and of the members of a Society ;

(v) Aims and Working of the Federal Institutions in the Movement.

II.—Rural Secretaries' Certificate Examination.

The Rural Secretaries' Certificate Examination will be held in the vernacular at the appointed time and place every year. Passing in any one of the following subjects will entitle a student to a card, but the certificate will be issued only on production of the pass cards for all the subjects.

Fee for the Examination is Re. 1.

Candidates will be examined in the following subjects :—

1. Co-operative Law . . . . . 1 Paper of 100 marks.

   (i) Co-operative Act and Rules.

   (ii) Constitution of the Rural Credit Society.

2. Co-operative Accounts . . . . 1 Paper of 100 marks.

   (i) Accounts of Rural Credit Society.

   (ii) Preparation of Annual Returns and Profit and Loss Account and Balance-Sheet.

   (iii) Long Term Credit.

3. Non-Credit Co-operation and Federations . 1 Paper of 100 marks.

   (i) Elements of Non-Credit Co-operation.

   (a) Different Types of Non-Credit Societies and how they can be worked.

   (b) Bye-laws and working of Sale Societies.

   (ii) Federal Institutions :

   (a) For finance ;

   The District Central Bank, its main Bye-laws and working.

   The Provincial Co-operative Bank, its main bye-laws and working.

   (b) For Supervision and Propaganda ;

   The Supervising Union, its bye-laws and working.

   The District, Divisional and Provincial Institutes, their bye-laws and working.

Books Recommended.

1. Sahakari Kayada.
2. Vernacular translation of the Primer of Co-operation.
3. Kanarese translation of Bombay Co-operative Act.
4. Sahakari Pat Pedhi.
5. ,, Sarafi Mandli by R. N. Trivedi.
6. Hisabi Paddhati by Gopalrao Mehta.
7. Jama Kharch Paddhati by Mr. Joshi.

III.—Supervisors' Diploma Examination.

A written examination will be held in the vernacular at the appointed time and place every year. There will also be a *viva voce* test (carrying 200 marks.) Passing in any one of the following subjects will entitle a student to a card but the Diploma will be issued on production of pass cards for all the subjects and also of the Rural Secretaries' Certificate and after the candidate has undergone practical training for six months (see Supplement). Exemption from production of the Certificate for having passed the Rural Secretaries' Certificate Examination may be granted by the Central Education Board under special circumstances.

No student will be permitted to appear for the examination unless he has attended at least three-fourths of the total number of lectures arranged by the Institute at any one of the following four centres :—

Hyderabad (Sind),

Surat,

Poona, and

Dharwar.

Exemption from attendance at the lectures may be granted under special circumstances at the discretion of the Central Education Board.

Fee for the Examination is Rs. 3.

Candidates will be examined in the following subjects :—

1. Co-operative Law . . . . . 1 Paper of 100 marks.
   Co-operative Societies Act, Rules and Bye-laws.

2. Principles and Practice of Co-operation . 1 Paper of 100 marks.

   General Principles of co-operative organisation ; forms of co-operative organisation ; co-operation as a remedy for rural stagnation ; village economics in India ; origin of co-operative movement in India ; its history and growth ; credit and non-credit co-operation.

3. Accounts and Elements of Auditing . . 1 Paper of 100 marks.

   Elements of book-keeping ; accounts of co-operative societies ; preparation of balance sheet ; profit and loss and other statements ; simple hints on banking procedure ; methods of audit.

4. Organisation, Management and Supervision of Societies.

   1 Paper of 100 marks.

   Organisation and constitution of a typical primary credit society ; system of management and working ; assessment of credit-worthiness ; relation with central federations for finance and for propaganda ; duties and responsibilities of inspectors and supervisors.

IV.—Bank Inspectors' Certificate Examination.

The examination will be held in vernacular at the appointed time and place every year. Cards will be issued to candidates passing either of the following subjects but to entitle him to the certificate the candidate must have passed the Secretaries' Certificate Examination and in all the subjects in the Supervisors' Diploma Examination.

He must have also put in six months' service in a banking institution and paid visits to (i) The provincial co-operative bank, (ii) a branch of the bank, and (iii) one of the following four banks: (*a*) Poona District Central Bank, (*b*) Surat District Central Bank, (*c*) Karnatak Central Bank, or (*d*) Sind Central Bank.

Fee for the examination is Rs. 5.

Candidates will be examined in the following subjects:—

1. Elements of Banking Accounts . . 1 Paper of 100 marks.

   Bank Accounts; Accounts of Urban and Central Banks; Preparation of Quarterly Financial Statements and other accounts.

2. Long Term Credit (Higher course) and Elements of Rural Economics . . . . . . 1 Papers of 100 marks.

   (*a*) Financial Needs of Agriculturists; Basis of distinction between Long Term Credit and Short Term Credit; Objects of Long Term Credit; Nature of Security; Tagai System, Redemption of Mortgaged Land or repayment of prior debts; Land Mortgage Banks; State Aid.

   (*b*) Factors of Production; Agricultural Organisation; Distribution; Marketing; Production; Effects of Prices on Production; Problem of Rural Indebtedness.

Books Recommended.

1. Sarafi Vyavahar by Rao Saheb V. C. Jadav.
2. Bank and Bank Vyavahar by G. K. Bhopatkar.

V.—Urban Secretaries' Certificate Examination.

The Urban Secretaries' Certificate Examination will be held in the vernacular at the appointed time and place every year. Passing in any one of the following subjects will entitle a student to a card; but the certificate will be issued on production of pass cards for all the subjects.

Fee for the examination is Rs. 2.

Candidates will be examined in the following subject:—

1. Co-operative Law . . . . . . 1 Paper of 100 marks.

   (i) Co-operative Act and Rules.

   (ii) Constitution of Urban Credit Society.

2. Co-operative Accounts . . . . . 1 Paper of 100 marks.

   (i) Accounts of Urban Society.

   (ii) Preparation of Annual Returns, Profit and Loss Account and Balance-Sheet.

3. Non-Credit Co-operation and Federations 1 Paper of 100 marks.

(i) Elements of Non-Credit Co-operation.

(ii) Federal Institutions.

(*a*) For Finance ;

The District Central Bank.

The Provincial Co-operative Bank.

(*b*) For Supervision and Propaganda :

The District, Divisional and Provincial Institutes.

NOTE.—The Clauses in the above about the medium of examinations should be modified as follows :—

The papers for examinations II and V will be set in vernacular.

Papers for examinations III and IV will be set in English and the answers thereof may be replied in English or vernacular.

VI.—Co-operative Certificate Examination.

The Co-operative Certificate Examination will be held in English at the headquarters of the Divisional Institutes on the appointed date every year. Cards will be issued for passing in either of the two subjects, but a certificate will be awarded on production of pass cards for both the subjects.

Fee for the examination is Rs. 4.

Candidates will be examined in the following subjects :—

1. Co-operative Act, Rules and Bye-laws. 1 Paper of 100 marks.
2. Theory and Practice of Co-operation. 1 Paper of 100 marks.

Books Recommended.

1. Law and Principles of Co-operation in India by H. Calvert.
2. Introduction to Co-operative Movement in India by C. F. Strickland.
3. Report of the Committee on Co-operation in India, 1915.
4. Co-operation in Germany and Italy by M. L. Darling.
5. Statistics relating to the Progress of Co-operative Movement in India.
6. Latest Report of the Registrar, Co-operative Societies for the Bombay Presidency.
7. Corresponding Leaflets of the Registrar's Department.
8. Bombay Co-operative Societies' Act.
9. Rules under Co-operative Societies' Act.

VII.—Co-operative Diploma Examination.

The Co-operative Diploma Examination will be held in English at Bombay on the appointed date every year. The Diploma will be awarded to candidates passing in any one of the following subjects on production of the certificate for the Co-operative Certificate Examination.

Fee for the examination is Rs. 10.

Candidates will be examined in the following subjects :—

1. Co-operative Credit .. .. 2 Papers of 100 marks each.
   - (i) Agricultural Credit.
   - (ii) Co-operative Banking.
2. Co-operative Production and Distribution (Urban). 2 Papers of 100 marks each.
   - (i) Consumers' Co-operation and Co-operative Housing.
   - (ii) Producers' Co-operation.
3. Co-operative Production and Distribution (Rural). 2 Papers of 100 marks each.
   - (i) Agricultural Marketing.
   - (ii) Agricultural Non-Credit Organisation.

Books Recommended.

1. People's Banks by H. W. Wolff.
2. Co-operative Movement by V. S. Subbaiya and V. L. Mehta.
3. Co-operative Banking by H. W. Wolff.
4. Elements of Banking by Macleod.
5. The Country Banker by G. Rae.
6. Co-operation in Agriculture by H. W. Wolff.
7. Report on Agricultural Credit and Agricultural Co-operation in Germany by J. R. Cahill.
8. Agricultural Organisation, its rise, principles and practice abroad and at Home by Edwin A. Pratt.
9. Rural Economy in the Bombay Deccan by C. Keatinge.
10. Consumers' Co-operation by Albert Sonnechsen.
11. Industrial Co-operation by Miss Catherine Webb.
12. Co-operation at Home and Abroad by C. R. Fay.
13. Co-operative Movement in Great Britain by Beatrice Potter.
14. Women's Co-operative Guild by M. Llewelyn Davies.
    Do. by Margaret Davies.
15. Distributing Co-operative Societies by F. J. Snell.
16. How to start Co-operative Stores by J. C. Gray.
17. Working Men Co-operators by A. H. D. Acland & B. Jones.
18. Consumers' Co-operation by Sidney and Beatrice Webb.
19. Consumers' Movement by Prof. Charles Gide.
20. Co-operative Industry by Ernest Aves.
21. Co-operative Production by Benjamin Jones.
22. Impressions of Co-operation in France and Italy by Otto Rothfeld.
23. Co-partnership and Profit-sharing by Aneurin Williams.
24. Study No. 10 in Indian Co-operative Studies by R. B. Ewbank.
25. Bombay Town Planning Act.

VIII.—Banks Officers' Diploma Examination.

The Bank Officers' Diploma Examination will be held in English at Bombay on the appointed date every year. Cards will be issued for passing in any of the following subjects but the Diploma will be awarded on production of pass cards for all the following subjects and the certificate for the Co-operative Certificate Examination.

Fee for the examination is Rs. 10.

Candidates will be examined in the following subjects :—

1. Co-operative Banking .. .. 1 Paper of 100 marks.

(i) Banking Law and Practice.

Banking Practice ; Joint Stock and Co-operative Banks ; Constitution and Management of Co-operative Banks, Central and Urban ; Bank advances including assessment of Credit in Co-operative Banking ; Valuation and Scrutiny of Security ; Nature of Security ; Periods and Objects of Loan : Rate of Interest ; Deposit Banking ; Debentures ; Payments of Cheques and collection of Bills, Cheques and Hundis.

(ii) Co-operative Banking, History and Problems.

1 Paper of 100 marks.

2. Banking Accounts and Office Management.

1 Paper of 100 marks.

3. Agricultural Supply and Marketing .. 1 Paper of 100 marks.

Books Recommended.

1. Banking Law and Practice in India by M. L. Tannan.
2. Bank Organisation, Management and Accounts by J. F. Davies.
3. People's Banks by H. W. Wolff.

No. 17.

Letter from the Secretary, Indian Provincial Co-operative Banks' Association, Patna, No. 395, dated the 22nd May 1930.

With reference to your letter No. 1102, dated the 14th February, 1930, I have the honour to re-submit the memorandum of the Indian Provincial Co-operative Banks' Association after suitable alterations as suggested by the President, Mr. Ramdas Pantulu.

Agriculture may be classed as the greatest and the most important industry in India at present. According to the census report for the year 1921 the total population of India, including Indian States and Burma, was 319 millions. Out of this number 33 millions only lived in towns and the remaining 286 millions lived in villages mainly depending on agriculture or on industries allied to agriculture. The country at present is overwhelmingly agrarian in character and, though varied industrial development is desirable, credit facilities for the production and marketing of the agricultural produce of the country are of very great importance at present.

Agriculture is the basic industry, which produces raw materials for several major industries. Commercial crops have replaced food crops in many localities and food crops have been commercialised everywhere. The method oCf marketing agricultural produce have undergone vast changes and abundant and easy credit is now required in the process.

The existing banking organisation in the country is unsuited to supply the capital and credit required for the agreuultural industry. The banking system of the country is confined only to commercial banking and an organised system of rural credit, now obtaining in many of the dominions like South Africa, Australia and New Xealand where the main function of these credit institutions is to finance agriculture and discount agricultural paper, is conspicuous by its absence in this country. There is no co-ordination among the various credit agencies including the Government and, without a Central Reserve Bank in the Country, a satisfactory co-ordination among the existing banking agencies does not appear to be practicable.

Till a Central Reserve Bank is established in the country, the assistance which the joint stock banks, including the Imperial Bank of India, can render to agricultural finance is by way of discounting agricultural paper and by strengthening the existing provision for overdrafts to co-operative banks on the backing of approved promissory notes of central banks and primary societies. The existing arrangements for this purpose are far from satisfactory. In Bombay Presidency, a number of co-operative banks, including the Bombay Provincial Co-operative Bank, keep short term deposits with exchange banks. The exchange banks, however, do not allow even inter-bank call money to the Bombay Provincial Bank without asking for security, although between themselves they lend without security, as the Indian joint stock banks and the Provincial banks do among themselves. The Imperial Bank of India has recently stopped the cash credit which since the year 1917 it allowed to the Bombay Provincial Bank on the security of the demand promissory notes of societies. The Imperial Bank is also said to be unwilling to give advances to the Bombay Provincial Bank on the security of Government paper. The reason advanced for the latter refusal is that the Bombay Provincial Bank has created a floating charge on its general assets in favour of its debenture holders in view of

which charge the Imperial Bank's position would not be secure. An inexplicable point in this connection is the fact that the debentures of the Bombay Provincial Bank came into existence simultaneously with the organisation of that bank itself in the year 1914 and a floating charge on its assets was created since that date. This consideration, however, did not weigh with the then Bank of Bombay when it first granted cash credits to the Bombay Provincial Bank in the year 1917. These credits were subsequently continued for a period of nearly 10 years by the Imperial Bank of India when also the question was not considered to be of sufficient importance for the step which has now been taken. In Bombay Presidency the Imperial Bank of India is said to be unwilling at present to freely allow cash credits even against Government securities, to central co-operative banks, at its local branches, on the ground that the central banks do not operate on their cash credit accounts but treat them as fluid resources.

In Madras Presidency the Imperial Bank of India has recently withdrawn the existing cash credit facilities granted by it to co-operative banks on the backing of co-operative paper, *i.e.*, demand promissory notes of co-operative banks and primary societies. The Imperial Bank of India in Madras has given 5 years time to co-operative banks, enjoying such cash credits, to replace the demand promissory notes of co-operative banks and societies by gilt-edged securities at the rate of 20 per cent. of the total per annum, so that at the end of a period of 5 years all existing collateral securities may be replaced by Government paper.

The total credits granted by the Imperial Bank of India to co-operative banks in British India on 31st December, 1928 were estimated at Rs. 2,66,40,000, out of which, credits aggregating to Rs. 1,93,48,000 were against Government and other securities and credits of Rs. 72,92,000 were against demand promissory notes of co-operative banks and societies. Out of the credits of Rs. 72,92,000 granted to co-operative banks against the demand promissory notes of co-operative banks and societies, credits of Rs. 54,16,000 were granted in the Presidency of Madras and the balance of Rs. 18,76,000 were distributed in 6 other Provinces of the country. The system of advances against co-operative paper was, therefore, very important in Madras till it was suddenly stopped by the Imperial Bank of India last year.

From the instances quoted above, the reasons for the present disinclination of the Imperial Bank to freely grant cash credits to co-operative banks appear to be as follows:—

1. The co-operative banks have been competing with the Imperial Bank of India and with other joint stock banks in certain spheres of banking specially in the matter of buying and selling of remittances at places where they have got offices.

2. The co-operative banks have been accustomed to utilise the cash credits granted by the Imperial Bank as fluid resources.

3. The demand promissory notes of primary societies and central co-operative banks do not constitute the most eligible form of security against advances by the Imperial Bank.

With regard to the competition of co-operative banks with the Imperial Bank and joint stock banks in the matter of commercial business, the co-operative banks, if necessary, are prepared to give an undertaking that no

business of buying and selling of remittances will be transacted by them at centres where the Imperial Bank of India has branches. If the co-operative banks are required to give such a guarantee, their expansion and usefulness will receive a serious check. In the matter of places where the Imperial Bank has no branches, it will be advisable to encourage the co-operative banks to undertake the business of buying and selling remittances in order that proper remittance facilities may be available to merchants and traders as well as to the people at those places.

With regard to the necessity of providing adequate fluid resources for the movement which is expanding rapidly, it will not be an easy matter for co-operative banks to have adequate fluid resources without the support and assistance they have received so far from the Imperial Bank of India. The margin between the rates at which co-operative banks borrow and lend are very small, and the tendency is towards a further decrease in this margin. This tendency of smaller margins for co-operative banks, with the expansion and progress of the movement, is also visible in western countries and appears to be inevitable in India. If the co-operative banks are compelled to maintain adequate fluid resources and to be self-contained and self-supporting, this can only be achieved by increasing the rates on loans to primary societies and ultimately to the members of these societies. In view of the general decrease in Mahajani rates in villages where co-operative banks have been established, it is doubtful whether rates on loans to members can be successfully increased at the present stage of the movement in the country. Even if a slight increase in the lending rate to members of societies was possible, it is certainly not desirable.

With regard to the fluidity of the demand promissory notes of central banks and societies, it cannot be denied that a certain amount of rigidity exists in co-operative paper. Agricultural paper cannot, by its very nature, be as liquid as ordinary trade bills. At the same time it cannot be denied that there is unimpeachable security of land behind the agricultural paper and subsequently there is very little risk of the money being lost. From the figures given above the total cash credits granted by the Imperial Bank against agricultural paper in the country do not exceed Rs. 72,92,000 and, having regard to the large resources of the Imperial Bank of India, and assuming that agricultural paper does not conform to the standard of eligibility acceptable to the Imperial Bank, the business of the Imperial Bank is not likely to be in the slightest degree affected because its advances under this type of security are very limited in comparison to its vast resources. So far there has not been a single instance of default on the part of any central bank in meeting its obligations. Besides, the only way in which agricultural paper available at co-operative banks can be made convertible and marketable is by making it acceptable to the Imperial Bank as a collateral security against advances to co-operative banks. Co-operative banking is governed by the same basic laws of finance as ordinary banking. Co-operative banking is also under the special disability of possessing as security for its loans, only the pro-notes of primary societies, which are incapable of being converted into cash in the market. The co-operative banks have, therefore, a claim upon the Imperial Bank and the State for a certain amount of financial concession. If agriculture is to be financed adequately and if it is conceded that co-operative credit societies are the most suitable agencies for dispensing such credits, this object can be achieved only by affording a certain amount of accommodation to these credit societies on

the backing of their paper. The paper must of course be short dated and otherwise, subject to conditions which ensure its easy realisation. A few such conditions are suggested below:—

1. The cash credits granted against demand promissory notes to co-operative banks should be utilised only as fluid resources to cover deposits or as short term loans repayable within a year.

2. The limit of credit granted against agricultural paper by the Imperial Bank of India may be limited to the owned capital of the co-operative bank to which it is granted.

3. The total value of promissory notes of primary societies deposited as collateral security with the Imperial Bank should be in excess of the cash credit limits sanctioned by at least 33 per cent.

4. The promissory notes deposited in the Imperial Bank of India as collateral securities may be previously approved by the Assistant Registrar or the Registrar and every year renewed.

5. If the value of any promissory note deposited as collateral security is repaid during the year of the credit, the co-operative bank to which credit is granted against this security should agree to replace it by another pro-note duly approved by the Assistant Registrar or the Registrar.

The financing of jute, cotton, oil-seeds and grain for export is mainly done by mercantile houses having agents and branches throughout the country and controlled by Europeans. The system adopted is either to purchase, through their agents and branches, these commodities in the local markets, or to advance money to the producer against his crop before harvest, fix the price of the produce far in advance, and to move the crop to shipping ports, when ready. The mercantile houses generally utilise their own capital in the process but in case any financial accommodation is required by them, the exchange banks as well as the Imperial Bank make them necessary advances against goods in stock at ports.

Financial assistance is being given to producers by the co-operative movement in the earlier stages of production in all provinces, and in the marketing of the produce in some provinces. In the Bombay Presidency, the Provincial Bank possesses a network of branches distributed throughout its area of operation, and maintains several shops in conjunction with such branches for marketing jaggery and cotton produced by the members of societies affiliated to these branches. There are also several independent cotton sale societies functioning successfully in that Presidency. In Bengal, several societies for the co-operative marketing of jute belonging to members, have recently been organised, and have so far been functioning successfully. The success so far achieved in co-operative marketing is conspicuous only where commercial crops like jute, cotton, jaggery, and oil-seeds, are concerned. Co-operative marketing of grain has not been so successful any where as to attract attention. The success which has attended these efforts at co-operative marketing in some centres gives ground for hope that if after mature consideration similar attempts were made elsewhere, they will meet with success. The experience gained from the working of these organisations in all parts of the country indicates, that where the services of a central agency which could co-ordinate the efforts, keep the local organisations in touch with the fluctuations and trend of the central markets, and connect them with purchasers and consumers are available, the local co-operative organisations function successfully. The

co-operative marketing agencies derive finance from co-operative banks, and the members have so far not experienced any difficulty with regard to credit facilities for the production and marketing of their produce. However, the recent decision of the Imperial Bank of India not to accept co-operative paper as collateral security must greatly embarrass the co-operative movement in the matter of financing co-operative marketing.

The efforts made at co-operative marketing of agricultural produce are still very limited, and in order that these efforts may be more extensive and successful, adequate facilities for financing produce are needed. The time has not yet come when the existing financial facilities granted to the movement could be curtailed. When co-operative organisations for the sale of agricultural produce become more numerous, it will be possible to introduce trade and accommodation bills in the movement and thus impart the much needed liquidity to co-operative finance. Till this stage is reached, the existing financial facilities, whereby advances can be obtained against demand pro-notes of central banks and societies, can be curtailed, only at the ultimate disadvantage of the poor peasant.

The rates charged by the Provincial banks, on advances to their affiliated central banks, vary in the different provinces of the country, due to various causes. In Bengal and Central Provinces, the most usual rate is between 7 per cent. to 8 per cent. per annum, in the Punjab it is 7 per cent. and in Madras and Bihar and Orissa, it is 6 per cent. per annum. The lending rates of central banks to primary societies also vary in different provinces. In Bombay, Madras and the Punjab the usual lending rate to societies is between 7 per cent. to 9 per cent. per annum. in the Central Provinces and Bengal the rate is 10 per cent. to 11 per cent. per annum, and in Bihar and Orissa and United Provinces the rate is 12 per cent. per annum. These variations in the lending rates of Provincial banks to central banks in different provinces are due, either to the different monetary conditions of the places served by the Provincial banks or to the latter's inability to raise the required money at a lower rate, due either to the rapid expansion of the movement or to its recent organisation. The variations in the lending rates of central banks to primary societies in different provinces are greater than the variations in the lending rates of the apex banks to central banks, due partly to causes enumerated above, but mainly to the different functions discharged by the central banks of different provinces, and the extent to which State help for audit, supervision and propaganda is available or has to be borne by them. The rates at which funds are available to primary societies in a majority of the provinces are still fairly high. Although funds are lent out by primary societies to members in all provinces at appreciable lower rates than those charged by local Mahajans, experience has shown that agriculture cannot be a profitable industry, unless rates charged on advances for the purpose, with the removal of other causes, are also appreciably lower than those charged at present. A serious effort is, therefore, needed to explore all possibilities of making additional financial assistance available to the movement at a cheaper rate, with a view to make this premier industry of the country a paying proposition, to provide an occupation to the literate classes, to diminish unemployment, to impart uniformity of interest rates in different provinces, and to connect the central money market with the remotest village of the country through the co-operative bank. At present, no connection is visible between the

prevailing Bank Rate and the prevailing market rates for funds in mofussil towns and villages of the country, because the connection between the Imperial Bank, the Indian joint stock banks, the co-operative banks, and the indigenous bankers is neither well established nor enduring.

Financing of Foreign Trade.

With a total population of 319 million inhabitants, the country possesses only 89 towns containing a population of 12 millions. These towns individually contain a population of 50,000 and above, and a majority of them possess the required banking facilities. The remaining population live in small towns and villages, only a very limited number of which possess adequate banking facilities.

The Indian agriculturist sells his produce partly to his money lender and partly to merchants at the nearest market place. In mofussil towns these merchants generally act as agents of big merchants, residing in commercial cities, from whom they obtain the required financial assistance, when necessary. In some cases, the commercial houses purchase the agricultural produce, even before the crops are ready, through their local agents by formal contracts. There is no system of marketing the produce by producers themselves anywhere in the country. Co-operative marketing of grains and other food crops has not been tried to any appreciable extent anywhere, but co-operative marketing of commercial crops, especially cotton and jute, has been successfully tried in Bombay and Bengal respectively.

There is some similarity between the grain golas of Behar and the system of licensed warehouses in America. The grain golas of Behar store and grade the produce and sell it in the market on behalf of their customers on commission. The grain golas are generally managed by their proprietors out of their own resources, and are on a limited scale.

The credit instrument largely in use in mofussil towns, for inland as well as foreign trade is the hundi. In big towns bills of exchange are also used in addition to hundis. The merchants obtain the required advances against these investments either from joint stock banks or from indigenous bankers. The discount charged by banks and bankers for such bills and hundis vary in different parts of the country and in accordance with the monetary conditions of the different seasons of the year.

In the case of foreign trade, the banking facilities existing are provided by powerful exchange banks, and are ample, but the facilities for financing the internal trade of the country are very limited due to the lack of banking facilities in mofussil towns.

The required banking facilities can be immediately provided if joint stock banks open more branches. Branch banking in centres of petty trade, however, cannot be profitable. Besides, branches of big commercial banks, as experience has shown, have so far succeeded only in drawing out money from centres where they are opened for use in big commercial centres, where their head offices are situated. The branches of big commercial banks generally cater to the needs of fairly big constituents and by their very nature are not suitable for the needs of petty traders and artisans who constitute a large part of the trading community of small mofussil towns and market places. The Imperial Bank of India, with the help it receives from Government, has succeeded in providing banking facilities

only in important mofussil centres of commerce and industries. The joint stock banks have been still less successful in the matter of branches. By giving encouragement to the organisation of small independent banks and capitalist banking firms, the required banking facilities in minor trading centres can be provided, connecting these centres with the central money market of the country. The defects of this system, however, are that individually these institutions must remain financially weak, their activities cannot be controlled, and without proper control they cannot succeed in inspiring the necessary confidence, and gradually degenerate into soulless Mahajans. As their sphere of operations cannot be restricted, rivalry for business and competition for deposits between them, may lead to abuses and high rates on deposits. In Bengal there are 600 loan offices distributed throughout the Presidency and the rate of interest allowed on deposits in the mofussil towns in Bengal is fairly high, in comparison with the rates allowed on deposits in mofussil towns in Bombay and Bihar and Orissa.

The only proper solution considering the state of the trade of the country in mofussil towns is the organisation of Peoples' Co-operative Banks in such areas under the Co-operative Societies Act. These institutions can attract the savings of small men and employ them locally. A machinery exists whereby their activities can be controlled by Government, technical advice and guidance is also available to them whenever needed together with funds from the existing credit institutions within the movement, and their activities can be restricted to particular areas thus eliminating the possibility of any unhealthy rivalry or competition between two co-operative banks. These institutions can also successfully connect the mofussil towns with the central money markets through the well organised system of co-operative credit, if their number is increased, the restrictions imposed on them are removed, and they are organised on a sufficiently large scale, to enable them to engage the services of trained assistants. Peoples Co-operative Banks are not necessarily meant for small people only. The functions of such banks should be to provide financial assistance to small and big traders and artisans within their areas of operation and also to provide cheap remittance facilities.

Regulation of banking.

It is necessary that the audit and examination of bank accounts should be done by examiners duly qualified and appointed for the purpose. They should appraise the financial position of the banks, the correctness of the fluid resources held by them and the reasonableness of the reserves set aside by them every year from profits. The word "Bank" should be strictly limited to institutions doing not merely money-lending but all kinds of banking business, *i.e.*, accepting deposits and discounting bills, hundis, etc.

Foreign banks doing banking business in India should publish periodical reports and returns relating to their transactions in the country. The balance sheets issued by the head offices of these banks situated outside the country do not give this information separately.

The subscribed and authorised capital in all banks carrying on business in India must have a definite relationship with the paid-up capital, before a bank is permitted to start work, must also have a definite relationship to its subscribed capital. The former should not ordinarily be less than

one-half of the latter. With regard to the appropriation of profits, it is necessary that a minimum contribution to the reserve fund should be prescribed for joint stock banks as has been done for co-operative banks. It is very necessary that Indian joint stock banks be protected by legislature against the unjust attacks by critics.

Co-operative banking in an agricultural country like India must play an increasingly important part, and the question for a long time to come shall have to be, what further privileges and concessions could usefully be given to co-operative banks and societies, in the interests of the banking development of the country. The co-operative banks, under letter No. 1244 A. G. R., dated the 29th September 1924, from the Secretary to the Government of India in the Department of Education, to the Provincial Governments, are forbidden from doing any exchange business. Co-operative banks are generally far removed from all centres of extensive business and trade, and have entirely to rely on the local Government Treasuries for remittances of funds from and to the Provincial centres. In the above letter Government "make it clear that the buying and selling of remittances is not consistent with the principles of co-operative banking and that this concession of a free remittance of funds by R. T. Rs. is not made to co-operative banks to enable them to carry on a commission business." It is, therefore, suggested that auditors of co-operative societies should be instructed to check such transactions which come to their notice and report them to the Registrar. It is further suggested that, if any local Government considers it necessary to impose a maximum limit on the daily issue of R. T. Rs. at par to co-operative banks, with a view to check any tendency to abuse the privilege, the Government of India will have no objection to the imposition of such local restrictions as are considered necessary. The above instructions were issued with a view to prevent the co-operative banks from comparing with the Imperial Bank of India in a section of banking which the latter has chosen to consider its exclusive privilege. The object of the latter could have been achieved, if the restriction imposed was confined to co-operative banks situated in centres where a branch of the Imperial Bank of India is in existence. By extending its application to all provinces and to all co-operative banks which are situated in small towns in the mofussil, where these are the only banks in existence or which can be profitably organised, a serious check has been put on the development of remittance facilities and banking habits in the rural areas of the country.

Exchange business is a perfectly legitimate business for co-operative banks and societies to undertake. To deny them this liberty is to take a very narrow view of the functions of co-operative banks. Freedom for co-operative banks to do exchange business will mean a considerable saving in the expense and risk involved in the transfer of funds from mofussil sub-Treasuries and Treasuries to the branches of the Imperial Bank of India and *vice versa*. As is well-known, the annual seasonal stringency in the money market commences with the movement of crops at the end of the monsoon. Generally speaking the stringency synchronises with the collection of land revenue by Government. The land revenue so collected accumulates in Government Treasuries without any outlet whereby it could be made available for the finance of local trade. The agriculturist at the same time markets his produce and the merchants require money in mofussil towns for its purchase. At this time of the year the Government

Treasuries in mofussil towns possess funds but cannot release them for the use of local merchants. These funds, at considerable risk and cost to Government have sometimes to be sent to Central Treasuries whence they pass on to the Imperial Bank, in a similar way. The local merchants on the other hand obtain funds from big merchants in cities. The flow of Government funds is, therefore, from mofussil towns to commercial cities, while for commerce, it is from cities to the mofussil towns at the same time in the busy season. The risk and cost involved both by Government and merchants, for sending and obtaining funds from big commercial centres, can be obviated by permitting co-operative banks to discount local hundis of approved merchants. The co-operative banks can serve as links between the merchants who need funds and the Government Treasuries which at this time have funds to remit to Central Treasuries. As is well-known the feeling of stringency in the money market is generated by the scramble for funds in big commercial cities and its origin can easily be traced to the insistent demand for funds from merchants in mofussil towns. The stringency, therefore, is more psychological than real. If, therefore, a means can be devised to release the currency locked up in Government Treasuries for the use of local merchants through co-operative banks by permitting the latter to do exchange business, the feeling of stringency is sure to be less acute with the passage of time.

The busy season in India ends with the commencement of the monsoon when funds remitted to mofussil towns return back to big commercial cities. This period synchronises with the time when the members of societies require funds for their agricultural operations and the co-operative banks draw funds from the Provincial Bank. If the co-operative banks are permitted to do exchange business, they can sell their drafts or hundis against their accounts with the Provincial Bank to local merchants, and thus promptly obtain the required funds locally. The co-operative banks should, therefore, be permitted to do exchange business freely in centres where a branch of the Imperial Bank is not situated and, if necessary, to restrict the business of co-operative banks to the limit of Rs. 10,000 per day in centres where there is a branch of the Imperial Bank. The concession demanded for co-operative banks situated in places having a branch of the Imperial Bank is dictated by reasons of sound banking. A constituent of a co-operative bank situated in such a centre cannot be expected to go to any other bank in case he requires a hundi or desires to discount a hundi.

The facility of a free remittance of funds by R. T. Rs. on Government Treasuries allowed to co-operative banks is certainly of great advantage to them. As has been mentioned before co-operative banks are generally situated in centres where, without such assistance from Government, funds would not be available. The advantage, however, of this facility is largely nullified due to the loss of interest. Co-operative banks have to suffer on balances in transit as there is a delay of at least a week in such transfers. With a view to prevent this loss to co-operative banks as far as possible, it is necessary that Government should extend the facility of a free remittance of funds by supply bills and telegraphic transfers to co-operative banks. In section 163 of the Resources Manual of Government of India the charges made for the issue of supply bills and telegraphic transfers are given as below:—

For an amount of Rs. 10,000 and above anna 1 per cent.

For an amount of less than Rs. 10,000 annas 2 per cent.

*The telegram charges may be Rs. 3 or Rs. 2 according as the person desires to transfer by an express or an ordinary telegram. When Government have already been pleased to confer the privilege of free R. T. Rs. to co-operative banks, the concession asked for in the proposal for the issue at par of supply bills and telegraphic transfers will not be considered to be excessive.

The present method of issuing cash orders at par in lieu of R. T. Rs. from Treasuries on sub-Treasuries increase the delay in the transfer of funds from one co-operative bank to another. It is a serious matter for consideration whether R. T. Rs. cannot now be issued direct between sub-Treasuries or between a sub-Treasury under one Treasury and another Treasury. Another matter for consideration is the extent to which facilities for the encashment, at sub-Treasuries and local branches of the Imperial Bank, of cheques drawn by central banks against the Provincial bank, can be given. Without this facility it is difficult to carry on banking transactions at co-operative banks situated in mofussil towns. In order to provide suitable safeguards for Government and the Imperial Bank, an undertaking can be demanded from the Provincial banks to honour on presentation of cheques drawn by their central banks and a suitable security can also be arranged and lodged for this purpose. The extension of this facility to co-operative banks will mean neither any risk nor any loss of interest to Government. The burden of providing banking facilities in small mofussil towns, due to the peculiar condition of the country, is very heavy on co-operative banks and when strong institutions like the Imperial Bank of India enjoy the privilege of having a free use of large Government balances, it is not too much to ask for the above facility for the transfer of funds through Government Treasuries in favour of co-operative banks.

The problem of long term capital required for the movement has not yet received the serious attention it deserves. It has been suggested that separate land mortgage banks should be started for the purpose, but for redeeming the debts of the existing members of existing societies and granting them loans for improvements in land, long term capital is required in all provinces. In Bombay and the Punjab this question has been partly solved by floating debentures with interest on them guaranteed by Government. In Bombay when the debentures were floated, the market conditions were very favourable to the issue of such debentures with the result, that they have been partly floated at the rate of 4 per cent. per annum. In the Punjab when the idea of floating debentures was put into execution, the market conditions were not so favourable with the result that a rate of 6 per cent. per annum had to be paid on these debentures. In Madras an attempt was made two years ago to float debentures repayable in 20 years without Government guarantee and the experiment succeeded. The other Provincial banks of India are not as favourably situated as the Provincial Bank at Madras and even if an attempt to float long term debentures without Government guarantee of interest on them is made, the experiment is not likely to be successful everywhere. The Royal Commission on Agriculture in India in discussing the form of State-aid recommended that the most suitable form in which State-aid can be granted to the co-operative movement, is to guarantee interest on debentures issued repayable in 20 or 30 years with a view to provide the much needed long term capital for the movement at a reasonably low rate of

interest. With a view to enable the Provincial banks to meet the long term requirements of central banks and societies, they should be permitted to float debentures and interest on these should be guaranteed by the local Government, in order to ensure their successful floatation at a low rate of interest.

In Bombay the local Government provides funds for long term loans to members for improvements in lands by annually advancing a fixed sum under the Land Improvement Loans Act. The practice there is for Government to place an allotment of about 3 lacs at the disposal of the Registrar of Co-operative Societies who passes on that money to the Provincial bank in current account and the funds out of the allotment are disbursed by the Registrar, jointly with the Board of Directors of the Provincial Bank. The period of repayment from the Provincial Bank to Government is the same as between the members and their societies with an allowance of 2 to 3 years. The maximum period of loans granted for improvements in lands is 20 years and the minimum is 5 years. Before the introduction of the co-operative movement, Government used to make Tacavi advances to agriculturists. Government have not to make such advances now, and the money so saved could with greater safety be advanced to the Provincial banks for the purpose of making long term advances to societies as is being done in Bombay.

With a view to encourage the banking habit in the people and to facilitate payments by bank adjustments as far as possible, Government and public bodies should accept payments by cheques on co-operative banks in payment of their dues.

As a rule the profits of co-operative banks in India are exempted from the operation of the Indian Income-Tax Act but the co-operative banks are required to pay income-tax on taxable Government and Trust securities held by them. As income on holdings in Government securities also forms a part of the profits of co-operative banks, to charge income-tax on securities held by them when their profits are exempted from the tax, is a curious deviation from the accepted principle, brought about by the way in which the Indian Income-Tax Act is administered in the country This anomaly requires rectification at an early date by the issue of instructions exempting securities held by co-operative banks from the payment of income-tax on them. The Secretary, Central Board of Revenue, Simla, in his letter No. C.-2921-T./29, dated the 5th May, 1930, to the President of the Association Mr. Ramdas Pantulu, stated that the Government do not wish to change the existing practice with regard to the above pending the Report of the Indian Central Banking Enquiry Committee.

The Imperial Bank enjoys the privilege of holding Government balances free of interest, at Government Treasuries where it has got branches. It is unlikely that the Imperial Bank of India will be able in the near future to open branches at centres of petty trade, where the co-operative banks have offices. Where there is no branch of the Imperial Bank of India and where the co-operative banks are functioning satisfactorily, there does not seem any valid reason against these co-operative banks being recognised as agencies for the management of the local sub-Treasuries and Treasuries in view of the fact that these banks are also managed under Government supervision and control.

The relations of the provincial co-operative banks with the Imperial Bank of India which acts as the State bank of the country as described previously are unhappily not very satisfactory in some of the major provinces of India and they are not uniform anywhere. The conditions under which cash credits are granted by the Imperial Bank of India to Provincial banks vary in different provinces. In Bombay before the cash credits were suspended, whenever any requisition was made by the Provincial Bank for either a demand draft or an R. T. R., Imperial Bank insisted on a certificate to the effect that the money was required only for *bona fide* advances to central banks and societies. Soon after this, the cash credits granted to the Provincial Bank were cancelled at Bombay and the Provincial Bank was forced to seek aid of a local joint stock bank. In Madras a similar state of affairs has risen in view of the fact that the co-operative banks there have been directed by the Imperial Bank to provide against the suspension of cash credits granted to them within a period of 5 years. In Bihar and Orissa the Provincial Bank was till lately enjoying a cash credit of Rs. 4 lakhs against the promissory notes of its guarantee shareholders, at the concession rate of ½ per cent. below Bank Rate since the year 1914. This ½ per cent. concession was given to the Bihar and Orissa Provincial Co-operative Bank due to its weak position and enabled it to give some commission to its guarantee shareholders for the liability undertaken by them for meeting the calls of the Imperial Bank of India. This concession has now been withdrawn since November, 1929. The Committee feel that as the State bank of India, the Imperial Bank instead of withdrawing the concessions which it has already granted to the Provincial banks should have granted extra concessions in the shape of long term loans at concession rates. As, however, the policy of the Imperial Bank changes so often, it is necessary that the facilities at present enjoyed by co-operative banks from the Imperial Bank be put on a contractual guarantee and those facilities be extended by making provision for financing co-operative banks on specially favourable terms such as granting long term loans for periods of over 12 months at Bank Rate on the pro-notes or bonds of the Provincial banks with fixed instalments and cash credits and short term loans for 12 months and under, on pro-notes of central banks and societies at 1 per cent. below the Bank Rate.

With a view to encourage the marketing on co-operative lines of the agricultural produce of members of societies, cheap and long term capital is required for the acquisition or construction of godowns in rural areas. The co-operative banks of the country are not in a position to provide the required capital at a low rate of interest for the long period it is required. The capital required can be provided only by Government for the period and at the rate it is required.

Banking Education.

Several Universities in India have established degrees in commerce during the last 13 years since the date such a degree was first established by the Bombay University in the year 1914, and there are now adequate facilities in the country for theoretical training in banking. There is, however, very little co-ordination between the institutions which impart theoretical training in banking and banks except at centres like Bombay.

The Indian joint stock banks do not provide any facility for the practical training of boys in banking, but they generally give all encouragement to their employees to appear at the British and Indian Institute of Bankers Examinations. The Imperial Bank mainly recruits its higher staff from the United Kingdom. The recruits are offered good salary, with a time scale, and other facilities. A few Indian recruits are also taken on probation but, the start and prospects for the Indian recruits are not the same as those given to European recruits. In Indian joint stock banks the staff is mostly recruited in India. The exchange banks as a rule do not take any Indian in officers' grade. In all banks, foreign and Indian, the clerical staff is recruited entirely in India. The co-operative banks have enlisted into their service educated young men and some of the Provinces have opened training classes for imparting education in co-operative banking but generally speaking the training is not up to the requisite standard.

In the United Kingdom adequate facilities are afforded for banking education. The Institute of Bankers holds periodical examinations for the employees of banks and the latter give all encouragement to their employees to appear at these examinations. The Chambers of Commerce and other Associations also conduct examinations in commercial subjects. In India the Indian Institute of Bankers, which has recently been established, is conducting periodical examinations on the lines of the British Institute. The Indian Institute has not nominated a single representative of the co-operative banks on its governing body. Considering the total of funds invested in co-operative banks, and the importance of the subject in an agricultural country like India, provision should be made on the governing body of the Institute for at least one representative of co-operative banks, to be nominated by the Provincial Banks Association. It is also worth while considering whether "Co-operation" should not be prescribed as one of the subjects for the examination of the Indian Institute of Bankers.

General Banking Organisation and Money Market.

As has been said before the export trade of the country is chiefly financed by the exchange banks through foreign commercial houses. The foreign commercial houses get the financial assistance they require from the exchange banks as well as from the Imperial Bank. The internal trade is mainly financed by the indigeneous bankers, and partly by the Indian joint stock banks, at centres where they have their branch offices. The exchange banks mainly finance European export houses. The Imperial Bank possesses a monopoly of having a large number of branches all over the country and is in a position to mobilise money from all districts, but there is little connection between the Imperial Bank and the indigenous banking system, with the result, that rates for money in the central and mofussil shroff bazars very often indicate a position, which is different from the position indicated by the prevailing "Bank Rate". Even after the organisation of the Imperial Bank Government still continues to be the biggest banker in the country with its net work of Post Offices established in the remotest villages and the Treasuries and sub-Treasuries. There is no connection between these Treasuries and the indigenous banking system. There are central co-operative banks almost in all districts in India and

Government Treasuries and sub-Treasuries could be easily linked with the local indigenous bankers through the co-operative institutions if the latter are permitted to discount bills. The seasonal stringency and slackness in the money market of the country will also be greatly mitigated if this connection is established, between Government Treasuries, the local indigenous bankers through the co-operative banks, by permitting the latter to manage Government Treasuries where the Imperial Bank has no branches and allowing them to discount commercial paper.

Suggestions have already been made previously regarding the means of providing a link through co-operative banks between the Government Treasuries and the indigenous bankers and thereby diminishing the seasonal fluctuations in the "Bank Rate". These seasonal fluctuations will not be so acute if the suggested connection could be established but will not disappear altogether as long as the control of currency rests with Government. The Royal Commission on Currency recommended the organisation of a Central Reserve Bank for the control of currency and credit and that recommendation still remains the only suitable solution of the problem.

The management of co-operative banks is economical for it is still partly honorary and where the services are paid for, the salaries of even the higher officials are smaller than those of men occupying similar positions in commercial banks, because competent men are attracted to the movement by idealism and love for the movement. The co-operative banks are bound by statutory rules to maintain certain standards of fluid resources and are also precluded from declaring high dividends. They have to rapidly build up their reserve funds by contributing 25 per cent. of the profits to them annually. The object of all co-operative banks is to make funds available to their societies, at the cheapest rate possible, and as their constitutions provide for an adequate representation of borrowers on their Boards of management, the rates charged by them on advances are generally as low as are consistent with safety.

For augmenting the resources of banks, indigenous capital is preferable to foreign capital. The Gold Standard and Paper Currency Reserves held in the United Kingdom should be transferred to India. With a view to encourage the use of local savings, for the development of local industries, a portion of the receipts from cash certificates and postal savings bank deposits should be placed with the local Indian joint stock and co-operative banks. The Indian fire and life insurance companies have large resources, which can be safely invested in long term advances to co-operative land mortgage banks. The interest on debentures floated by these mortgage banks is guaranteed by Government in all Provinces and these debentures can easily be declared to be trustee securities, or investments in such banks be permitted under the Trust Act.

In Madras the funds of the local Boards and municipalities are allowed to be invested in co-operative banks. In Bihar and Orissa the provident fund deposits of the employees of district Boards and municipalities are allowed to be invested in the Provincial Bank. In other provinces the Imperial Bank has practically a monopoly in the matter of the use of such funds. If funds of these public institutions are permitted to be invested in co-operative banks, these institutions will earn a suitable return on their idle funds and the premier industry of the country will also be greatly benefitted.

No. 18.

Statement of evidence submitted by the Secretary, Madras Central Urban Bank Ltd., Madras.

SECTION I.—QUESTIONNAIRE.

Industrial Bank and credit facilities for India's main industries.

Q. 1. Credit facilities are required in the case of indigenous industries not for purposes of floating the concerns or finding the capital outlay but in order to help the industries in their current requirements. Considering the formative period of these industries and the early undeveloped conditions in which they find themselves at present, it is necessary that in order to enable the management to place the industry on a self-supporting basis, the advances made should not be of a character always returnable within six months or one year, but must cover longer periods and for this purpose they perhaps will have to depend upon the flotation of stocks or debentures. These requirements are not adequately met by the existing banks, so far as the nascent industries are concerned.

Agriculture may now be classed as an industry which needs balanced investments of the three factors of production, land, labour and capital, for it has long ceased to be a mere investment of labour on free land. The importance of agriculture as a basic industry which produces raw materials for major industries is increasingly being realised. In certain localities commercial crops have replaced food crops. Moreover, the methods of marketing of agricultural produce, which after all is an integral part of production process, are also undergoing changes and the seller, buyer and the middleman who play very important parts, look for facile credit. The existing banking organisation is obviously unsuited to supply the capital and credit required for the agricultural industry. Agriculture has to be financed on a radically different basis. Agricultural finance or rural credit must be linked up with the banking system of the country.

An organised system of rural credit now obtains in most self-governing countries, especially in Dominions like South Africa, Australia and New Zealand, whose main function is to find money for agriculture and discount agricultural paper. The Federal Banks in U. S. A. and the Agricultural Credits Act of 1928 in England provide rural credit.* In India, the whole banking system is confined to commercial banking, very often to the detriment of agriculturists. So, the defect of the system can be summed up in one word—the absence of a rural credit agency in the banking system of the country.

There is no co-ordination among the various credit agencies including Government. There should be co-ordination between the State bank and the co-operative societies. Without a Central Reserve Bank for India, it is not possible to co-ordinate the existing banking agencies and correlate circulation of capital to promote agricultural industries.

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*(i) The Land Bank Act XVIII of 1912 of South Africa and Act XL of 1926.
(ii) The Federal Farm Loan Act of 1916 as amended and the Agricultural Credits Act of 1923—U. S. A.
(iii) Commonwealth Bank (Rural Credits) No. 16 of 1925, Commonwealth of Australia.
(iv) Agricultural Credits Act of 1928, England.
(v) The long term mortgage Department of the New Zealand Bank Act.

In the meantime the assistance which the joint stock banks, specially the Imperial Bank of India, can render to agricultural finance is by way of discounting agricultural paper and strengthening existing provision for overdraft on the backing of approved promissory notes of co-operative central banks and primary societies. The doubts that were recently cast upon the soundness of this paper, specially on its liquidity, have had a very unfortunate effect, as the Imperial Bank of India is virtually withdrawing the existing cash credit facilities on the backing of co-operative paper. That a certain amount of rigidity exists in co-operative paper cannot of course be denied and agricultural paper cannot in its very nature be as liquid as ordinary trade bills. At the same time the unimpeachable security behind this paper and the consequent absence of risk of losing the money, must weigh with the Imperial Bank in continuing this accommodation. After all, in this Province the total amount of accommodation afforded to the 30 central banks and the Provincial Bank put together, on the backing of co-operative paper is roughly 55 lakhs; and having regard to the large resources of the Imperial Bank, even assuming that this paper does not conform to the standards of liquidity accepted by the Imperial Bank, the business of the Imperial Bank is not likely to be in the slightest degree affected. Moreover, there has not been hitherto a single instance of default on the part of any central bank in meeting its obligations. The resources of co-operative central banks are expanding and their credit in the money market is growing. A hypothetical question as to what a central bank will do if all its assets get frozen, is more easy to ask than to answer. Similar questions may be asked about the operations of any bank. The accommodation given by the Imperial Bank goes to finance agriculturists and the circumstance that the Imperial Bank has large free balances derived from the land revenue obtained by Government from the agriculturist, gives the latter an undoubted moral claim upon the Imperial Bank and the State for a certain amount of financial concession. The effect of insisting on co-operative banks, the need to maintain cash balances or investments in gilt-edged securities as fluid resources, will inevitably result in retrenching their margin of working expenses and the consequent necessity to raise their lending rate of interest. So any curtailment of existing facilities is bound to have its reaction on the existing lending rates to the ultimate borrowers. So, if agriculture is to be financed adequately and if it is conceded that the co-operative credit societies are the most suitable agencies for dispensing such credit, the object can be achieved only by affording a certain amount of accommodation to these credit societies on the backing of their paper, which of course must be short-dated and otherwise subject to conditions which ensure its easy realisation. Such precautions are now taken in this Province and they are as follows:—

(i) Interest is payable quarterly at the Bank Rate calculated on daily debtor balances; (for central banks at the flat rate of 6½ per cent);

(ii) The cash credit should be utilized only as fluid resource to cover deposits, or as short term loans repayable within a year;

(iii) As a general rule, the cash credit will not be allowed to an amount exceeding the owned capital of the central bank concerned;

(iv) The central bank concerned should, in addition to the promissory note executed by it, furnish collateral securities in the shape of promissory notes of unlimited liability credit societies in the case of district central banks, and promissory notes of district central banks in the case of the Provincial Co-operative Bank;

(v) The actual value of the collateral securities furnished should be in excess of the cash credit sanctioned by at least 33⅓ per cent.;

(vi) Each central bank should forward to the Imperial Bank every quarter a list of promissory notes lodged as collateral securities showing the amount outstanding on each promissory note together with a certificate to the effect that the promissory notes lodged as collateral securities are in order. The list and the certificate are verified every half-year by the Deputy Registrar concerned, and the certificate of each verification is forwarded to the Imperial Bank through the Registrar;

(vii) Such of the promissory notes lodged as collateral securities as have become three years old, or are discharged, should be substituted by fresh promissory notes.

Q. 2. Taking the financing of cotton and ground-nut for export trade, it is found that these commodities are mainly in the hands of the middlemen and mercantile houses controlled by large European capitalists having their ramifications throughout the country. These merchants advance money direct to the producers, fix the prices far in advance before the harvest and move them for shipping to the ports in the various provinces. Many of the merchants are themselves financiers being enormously rich and in their case, both the exchange banks and the Imperial Bank go to their help by advancing freely upon the goods that have been placed in their hands.

The co-operative movement has attempted to finance those producers during the earlier stages but the recent decision of the Imperial Bank of India not to accept co-operative paper as collateral securities for the overdrafts granted has greatly embarrassed the co-operative movement in regard to financing this aspect of producers' activities.

With reference to the hides and skins trade financing is done primarily by the producer who turns out the finished goods for the market. He has got to find out the market through exporting houses. In order to provide sufficient capital for himself to pay the dealers and to keep his tannery going, he has got to approach the exporting house for advances against hides and skins to be shipped to foreign countries. It is at this stage that the banks render financial help and the help so rendered goes to the exporting houses which are mostly European. Thus the producer gets precious little help in the early stages.

The present state of things can only be improved by extending the facilities provided by bills, hundis and other forms of short term credit recognised by the commercial banks to the ryots and the producers themselves, and this can be done only through the agency of the co-operative movement. It is only then that the benefits of banking arrangements

can flow direct to the producers instead of being limited to the already well-to-do and influential middlemen and traders, most of whom are of European origin.

It is necessary, in order to benefit the producers and the industrial concerns, that a separate organisation should be brought into existence mainly for this purpose and it should finance them on the basis of long term credit. The long term credit need not be for such long periods as are required to deal with agricultural indebtedness but they should be for periods ranging from two to five years in the case of industries.

The 230 and odd crores of rupees of Paper Currency and Gold Standard Reserves now in England are not now being utilised for the benefit of the Indian trade. The Hilton Young Commission recommended the transfer of this fund to India, but it has not been done though two or three years have elapsed since those recommendations were made. The potentiality of this money to improve Indian trade, industry and agriculture will, we hope, be fully investigated by the Committee.

Q. 3. The rate charged by the joint stock banks in the Presidency is usually 2 per cent. above the Imperial Bank Rate, subject to a minimum of 8 to 9 per cent. We are more intimately concerned with the rates of interest charged for agricultural finance. The position so far as this Province is concerned is as follows:

The Provincial Co-operative Bank has definitely agreed with the central banks to lend them at 6 per cent. The central banks in their turn have agreed to lend to primary societies at rates varying between 7 to 8 per cent. The primary societies in their turn lend to their members at 9⅜ per cent. A few societies charge a little more but they are negligible. This arrangement is becoming increasingly difficult to carry out. In the current co-operative year our Provincial Co-operative Bank had to borrow from the Imperial Bank at 7 per cent. a sum of roughly 40 lakhs, which it lent out at 6 per cent. under its obligations to the central banks, thus losing one per cent. on this large amount at least for that portion of the year till the overdraft is reduced. This sum of 40 lakhs represents about 1/3 of the loan balance on date. Last year sums borrowed at 8 per cent., the then Imperial Bank rate, were similarly lent out at 6 per cent. By reason of the sound position of the Provincial Bank, which is able to bear this loss without seriously affecting its financial position, the central banks and the societies have not suffered any set back and they were able to maintain their own lending rates of interest. So the arrangements between the ultimate borrower of the societies and those between societies and central banks regarding the rates of interest, have not been disturbed fortunately for the present. But it is not possible to assure that the Provincial Bank will be able to stand the same strain for a continued period or even for short periods in coming years, unless it enjoys reasonable credit facilities for discounting co-operative paper on favourable terms. The potential dangers to the co-operative credit movement do not seem to have been vividly realised by those who lightheartedly advocate the curtailment of overdraft facilities now given by the Imperial Bank and in insisting on the substitution of cash or gilt-edged securities for co-operative paper. The loss sustained by the Provincial Bank by depreciation in the value of its holding in Government securities is Rs. 3,07,410 as on 31-3-30.

The dependence of co-operative banks on the Imperial Bank and Government for financial aid partly arises from the absence of a rational system of co-operative finance. It is expected of co-operative banks that they would finance agriculture as an industry mostly at the productive stage, as no joint stock bank does this. The finance of movement and marketing of crops is done mostly by the Imperial Bank and joint stock banks. So one would naturally expect that between June and December when agricultural operations are in full swing, the village societies will be actively financing their members for seasonal operations from sowing to reaping and that the demand of the agriculturists will be transmitted to the central banks and the Provincial Bank. Again it would be naturally expected that after harvest from January to June the repayment of agricultural loans will be coming in. If this happens, then the busy season of commercial banking will coincide with the slack season of the co-operative banks and *vice versa*. But nothing of this sort now happens. The primary agricultural credit societies are most dull in the agricultural season when they should be most active. All the energies of the supervisors, non-official leaders and departmental men are engaged in the preparation of statements, etc., from June to August, and in order to reduce the balance to demand, the collections are speeded up towards the end of the co-operative year in May and June when there is little harvest. The Madras Registrar publishes a series of interesting charts in his latest Report (1928-29) to exhibit this unhealthy phenomenon. To illustrate our point we give below a few figures showing the in-comings and out-goings of the Provincial Bank in the two half-years of the last three co-operative years.

Year.	November to April.		May to October.	
	Disbursements.	Receipts.	Disbursements.	Receipts.
	In lakhs.	In lakhs.	In lakhs.	In lakhs.
1927-28	32·60	17·46	17·73	28·96
1928-29	37·63	24·79	22·97	38·68
1929-30 (up to 31st March) .	53·78	14·77	..	...

Q. 4. Our experience in this province is that joint stock banks have not freely advanced to industries large or small and that many promising industrial concerns have failed or have been abandoned owing to want of credit facilities. In this province, to our own knowledge, at least 3 good industrial concerns have been starved, the Carnatic Paper Mills at Rajahmundry, the Sugar Factory at Masulipatam and the Spinning and Weaving Mills at Bezwada. They were all started after expert advice and great care and if they had only enjoyed reasonable credit facilities, they would have been successful. It may be that the banks do not find it possible to finance such industries under their present constitution and working and the methods pursued by them. We are not complaining against any deliberate withholding of assistance. All that we are concerned with is to point

out that, with reasonable credit facilities, many industries large and small, will thrive. We are of opinion that industrial banks should be established in each province. But their success will largely depend upon the nature of the industries that are financed in the beginning and also upon the general industrial policy of the State towards the industrial development in this country.

Industrial banks will only venture to finance industries if they have a reasonable belief that the State will so regulate its tariff and monetary policies as to help the industrial advancement of this country and also if there are reasonable chances of the State being interested in helping industries with subsidies, bounties and the like, whenever there is a prospect of the industries surviving foreign competition and becoming successful with such help rendered of course not for all time but at least for reasonable periods. So the success of industrial banks largely depends upon the industrial policy of the Government of India. It seems to us to be fairly well recognised that industries which are comparatively less speculative in their character should first be attempted to be financed by these banks. Key industries, wherein this country is more or less self-contained, should be naturally less risky. Again, public utility concerns dealing with supply of electricity, water, transport and the like, are less risky than other industrial ventures and there is large scope for their being financed by well-constituted industrial banks.

The exchange banks cannot be expected to help local industries and the Imperial Bank is prevented under the Charter from lending for periods ranging above 3 to 6 months. Even other joint stock banks do not extend their credit facilities beyond 6 to 12 months. Banking help to industries, to be useful, must be for longer term. The need, therefore, for the establishment of industrial banks is, in our view, clear.

SECTION II.—QUESTIONNAIRE.

Financing of Foreign Trade.

Q. 1-3. Taking into consideration the trade in oil-seeds, it is found that, due to want of a system of licensed warehouses it is found necessary to transport goods from the interior centres to the port centres in order to get accommodation on the pledge of produce. If warehouses are licensed in the same manner as they are done in America, the receipts issued by such licensed warehouses will be a ready means of raising credit. It will also facilitate easy movement of produce from the interior to the ports of export, without creating undue flooding of produce in the port towns.

The small producer sells his produce at deflated prices, parting with some portion of it to the local money lender and the rest to the middlemen in the nearest marketing centre. In the case of commercial crops, in many instances, they are sold through forward contracts to foreign houses who advance capital even before the crop is up. In a small number of cases, the produce is stored in godowns locally and advances are taken from the banks and held up for a favourable market. There is no organised system of marketing anywhere in this province. Co-operative marketing is not tried anywhere to any extent worth mentioning. There is great scope for co-operative effort generally in marketing produce, specially

of the commercial crops. There are no pools and the possibilities of forming pools are very great. The grading of crops and their preparation for the market develop with the forming of pools and the system of auction which is tried in some places has been found beneficial to the producer in the way of fetching better prices. For instance in the cardamom societies in Madura, auctioning is tried with advantage. The formation of pools for the marketing of commercial crops on a co-operative basis is very desirable and should be encouraged.

The credit instruments that are largely used with regard to foreign trade are the bills of exchange, hundis, etc. Against these instruments the merchants are able to raise credit either from the local banks or from indigenous bankers and the rates charged by the merchants or the indigenous bankers generally are 5 to 6 per cent. over the then prevailing rate of the Imperial Bank of India.

The facilities existing in the case of foreign trade are those created by the exchange banks discounting bills drawn against goods that are shipped to foreign countries. The facilities for internal trade are very few. For example: if "A" dealing in piece goods sends goods from Madras to a village in the interior or *vice versa* and draws upon the local merchant, those bills are not discounted by exchange banks, because there are no banking facilities. On the other hand if the same "A" ships goods to a foreign country and draws upon the foreign merchant, he readily gets them discounted.

With regard to the encouragement of the use of these bills, the suggestions which we have to make are firstly, that the stamp duty upon the usance bills should be reduced, the scheduled rates in article 13 of the first Schedule to the Indian Stamp Act being in our opinion high; secondly, negotiation of bills drawn in the vernacular languages of the province must be made far more easy and banks should employ competent officers knowing the vernaculars. The insistence on a vernacular signature being attested before a magistrate and other restrictions discourage in practice bills drawn in the vernacular. To popularise bills of exchange and extend their use, the insistence upon their being in the English language should be relaxed, as the percentage of English-knowing population is infinitesimal and encouragement of banking habit among the people cannot be achieved only through English.

The legal position of the bills of exchange in the vernacular languages in use and the well-recognised incidence attached to them by local custom and usage which are invariably acted upon, are clearly explained in their treatise on the Negotiable Instruments Act by Messrs. Bhashyam and Adiga, pages 19 to 24 (Fourth Edition) attention to which is respectfully drawn.

The fluctuations in the rates of interest charged are rather violent and embarrassing to traders. The exchange also has introduced a great complication in the transaction of business, both export and import. It is the practice of the civilised world to conduct sale and purchase on terms of mutuality between the buyer and seller. The traditional privilege of the seller to fix the terms of money in which he must receive his price is denied to the Indian and this has introduced uncertainties in the market and also speculative enterprises which are ruinous to a degree.

SECTION III.—QUESTIONNAIRE.

Regulation of Banking.

Q. 1-5. It is necessary that the audit and examination of bank accounts should be done by examiners duly qualified and appointed for the purpose. They should appraise the financial position of the banks, the correctness of the fluid resources held by them, the reasonableness of the reserves laid aside every year from out of the profits, and they must be appointed by an Association of Bankers in the country. In order to prevent banking crashes it is necessary that banks should be required to insure their own stability with the Banks' Association by the formation of a pool to which they should contribute at a stated rate to be agreed upon by the banks. The word 'bank' should be strictly limited to institutions doing not merely money lending but all kinds of banking business, including discount of bills, hundis, etc., and banking business should be prevented from being done by firms, not exclusively committed to and carrying on this purpose. A disciplinary control over such institutions should be maintained. It is necessary that private firms or even individuals doing banking business must take out a license. Even money-lenders' profession may be brought under disciplinary control by demanding that a license should be taken out for the purpose. The books of such firms and individuals should be open to public examination of banking examiners.

Foreign banks doing banking business in India should also be subject to the same rules of license and they should be insisted upon to publish periodical reports and returns appertaining to the transactions in the place in which they carry on the business. The license must be issued by the Banks' Association. The consolidated audited balance sheets issued by the head offices of non-Indian banks do not contain information about their operations in India in a form which is of any use to us.

Q. 6. The Joint Stock Companies Act is inadequate to control the operations of a banking organisation. The subscribed and authorised capital must have a definite relationship, while the capital that is paid before the business is started must also have a definite relationship to the subscribed capital, ordinarily not being less than one half.

With regard to the matter of reserves also it must be laid down that the amount carried to reserve fund from the annual net profits should be not less than ¼ of the net profits and after a certain stage the figure may be worked down to ⅛ as in the co-operative banking. This may not involve any hardship as the banks use their reserves in their business. Likewise the proportion of the borrowings to the paid-up share capital, must also be fixed somewhat on the lines of the co-operative banks so as not to exceed 10 to 15 times the paid-up capital. Similar rules must exist in regard to the proportion of fluid resources and the system adopted in respect of the co-operative movement may be made applicable to commercial banks as well.

Q. 7-10. It must be possible for a bank, whenever it is weak or embarrassed, to seek amalgamation with a larger bank, without passing through the process of liquidation, on terms and conditions to be agreed upon by the larger bank, through the intercession of the Banks' Association or apart from it. In case of liquidation, assistance similar to that rendered in the case of the Alliance Bank should be resorted to in order to

safeguard the interests of the creditors and to prevent avoidable depreciation in the assets of the bank undergoing liquidation. When once a bank's condition is considered to be weak and a proposal for amalgamation is taken up, a kind of temporary moratorium must be permitted so that it is not open to current account depositors to withdraw the money straight away and the claims of all the depositors must be equitably settled whether in liquidation or in amalgamation.

Q. 11. There is no need to create any special legislative facilities for inducing special class of deposits as banking is becoming more and more popular daily and deposits are not wanting for ordinary banking purposes. This does not apply to any long term deposits that have to be secured for aiding industrial enterprises.

Q. 12. It is very necessary that banks should be protected against the unjust attacks on their stability by cantankerous critics. There must be an emergency machinery to be operated, the verdict of which should enable the Central Reserve Bank to come to the rescue of a bank on which there has been a run.

13. Co-operative banks do require special concessions, for without them agriculture cannot be adequately financed. We commend the following:—

(1) Placing on a footing of statutory or contractual guarantee the financial facilities at present enjoyed by the co-operative banks at the hands of the Imperial Bank, and the enlargement of the scope of those facilities by the provision of finance on favourable terms on a longer term basis and at reduced rates of interest for periods of twelve months and under. Loans for periods of over 12 months, but not exceeding twenty-four months, should be granted at Bank Rate on pro-notes or on bonds of provincial banks with fixed instalments, and short term loans for periods of 12 months and under, on pro-notes to 1 per cent. below the Bank Rate.

The ultimate solution depends upon the creation of a rural credit section to the future Reserve Bank by whatever name it may be called, which must be subject to an obligation to finance co-operative societies, especially of discounting and encashing co-operative paper.

(2) The grant for co-operative banks of cash credit for agricultural operation and the discounting of their bills of exchange.

(3) The recognition of approved co-operative central banks in areas where the Imperial Bank has no branches, as agencies for the management of Government sub-Treasuries.

(4) The recognition of inland exchange business as a legitimate part of the operations of the co-operative banks and the grant of further facilities for transmission of funds through the Treasuries, particularly in taluka towns, with a view to encourage the opening of urban banks and branches of provincial or central banks at those centres.

(5) Provision for cheap capital for the acquisition or construction of godowns in rural areas in order to encourage the marketing of agricultural crops financed on co-operative basis.

(6) Exemption of co-operative societies from payment of income-tax on earnings from investments in public securities or land mortgage debentures.

SECTION IV.—QUESTIONNAIRE.

Banking Education.

Q. 1. At present there are not sufficient facilities in the country for banking education in schools and colleges; a few Universities in India have established Degrees in commerce. It is a pity that there is very little co-ordination between the institutions which train candidates in banking and the banks.

Q. 2. The existing banks do not provide sufficient facilities for the training of boys in the banking business. The Presidency Banks, before they were amalgamated into the Imperial Bank, used to take apprentices for training, but they were not able to attract proper persons on account of the low start they gave.

The other joint stock banks have not, so far as we know, any definite efficient system of training boys for banking business. The Imperial Bank at present recruits its staff mainly by importing young men from England. These people are started on good pay, with a time scale and other facilities. Recently for some years they have been selecting probationers for training in banking methods, who after two years' probation are confirmed and put in charge of various duties in branches and in the head office. The start given to Indian recruits is not on the same scale as that given to the European recruits, though the academic qualifications of the latter are not on a par with those of the Indian recruits. The Indian joint stock banks have not any definite scheme of training or probationership for young men. The exchange banks, as a rule, do not take any Indian for training in the business of exchange banking. The recruitment is generally confined to the clerical line and the highest post that any Indian can fill up in the exchange bank is that of a cashier or a shroff.

Regarding the co-operative banks attempts are being made to enlist into their service educated young men. But the necessary facilities for training in methods of banking and co-operation are still lacking. Recently the Government of Madras opened a training class in the local School of Commerce for training recruits for the co-operative department. As yet no definite scheme of training for co-operative banks' employees is to be found in the country up to the requisite standard.

Q. 3. Instructions in banking—theoretical—is generally looked after by the commercial institutes and colleges of commerce established under the aegis of the Universities, but there is no co-ordination between theoretical training and practical work. If the instruction in banking is to bear fruit, it is necessary that some co-ordination has to be established between the theoretical studies provided for by the existing institutions and practical work in banking institutions.

Q. 4. So far as we know, very good facilities are afforded for banking education in the United Kingdom. The Institute of Bankers holds periodical examinations for employees in banks and a large number of employees sit for these examinations held by the Institute. Further, the banks in the United Kingdom pay bonuses to the candidates who pass the examination of the Institute of Bankers.

The various Chambers of Commerce and other Associations also conduct examinations in commercial subjects and grant certificates, the holders of these certificates being generally preferred to others for employment in the banking institutions.

The only suggestion that we can make with regard to making such facilities available in India is that the banks here must insist upon minimum qualifications for employment in banking houses and also give sufficient facilities for their employees to improve their knowledge by granting bonuses as in the United Kingdom to candidates passing examinations held by responsible authorities. Further, if a Bankers' Association is formed in the country and they come to the conclusion that only persons who have received a certain minimum education in banking and commercial subjects should be entertained in their institution and give preference to persons holding certificates from responsible authorities, the question of banking education can well be solved. It will greatly facilitate higher training if suitable candidates who are already employed in banking institutions are selected and given scholarships to get higher training outside India if necessary. The scholarships may either be instituted by Government or the Universities or the Association of the Bankers.

Q. 5 & 6. When the Indian Institute of Bankers was started, not one of the co-operative banks was consulted. There is not even now a single representative of the co-operative banks on the governing body of the Institute. In India, the co-operative banking movement is a factor not to be ignored: the sum total of funds handled by the co-operative movement in India is next only to that of the Imperial Bank of India and nearly equals half that handled by all the Indian joint stock banks put together. The joint stock banker ought to know all about "co-operation" and *vice versa*. At present a subject like Commercial Geography is included in the compulsory subjects of the Associate Examination, but not co-operative banking. It is worthwhile considering whether "Co-operation" should not be prescribed as one of the subjects for the examination of the Institute of Bankers. It is equally worthwhile to press the claims of co-operative banks for representation on the Institute.

Q. 8. The prospects at present for boys trained in banking in India are very meagre. There are not large joint stock banks with huge branch ramifications to employ trained staff. The Imperial Bank to a certain extent selects young men with University qualifications for probationerships in their institutions. So far as we know the exchange banks will not take Indians for employment in their organisations. The manning of Indian joint stock institutions is being done in a haphazard fashion, being private institutions, and nepotism is generally the order of the day. Till banking organisation grows on a large scale, it does not seem that there is any present or future prospect for boys, who specialise in banking. To a certain extent the slow development of branch banking may be due to want of sufficient number of trained men in the country. But more than this, it is the difficulty in coping with the competition of the Imperial Bank that stands as a bar to the quick growth of branch banking.

Section V.—Questionnaire.

General Banking Organisation and Money Market.

Q. 1. This question must be answered from the stand-point of whether the trade is export trade or internal trade. Most of the export trade is chiefly financed by the exchange banks and commercial houses. These houses have their own finances or depend on exchange banks and to a certain extent on the Imperial Bank of India in an indirect way. Really what suffers is the internal trade and the export trade of the Indian producers and the Indian merchants who are not linked to export houses. The exchange banks mostly finance European mercantile export houses. The Imperial Bank practically possesses a monopoly having branches all over India and, therefore, facilities for mobilising money from district to district through the various branches in the country. The joint stock banks that exist are detached bodies linked in no way to each other and, therefore, cannot mobilise money except through the Imperial Bank. If all these banks are organised in such a way as to work together, they could facilitate the remittance of money from one end of the country to another. There are fortunately central co-operative banks almost in every district in India now and all these could be linked together through their provincial organisations to mobilise their resources through the aid of the State bank. If they are permitted to discount bills and advance monies on documentary bills, then the facilities for marketing would undoubtedly be improved and made cheaper.

We, as a co-operative bank, are vitally interested in the question of movement of funds from one place to another because our organisations are widespread and the success of agricultural finance through co-operative credit societies will largely depend upon the ease, readiness and cheapness with which funds can be moved.

We do not think that the co-operative banks can solve this problem for themselves by establishing an All-India Co-operative Bank. The provincial Banks' Conference considered the scheme impracticable. No all-India organisation of that nature can function profitably, unless large free funds are made available and wide fields of investment are also opened. In both these respects the All-India Bank will suffer and will not be in a position to help the Provincial banks.

Q. 2. It is possible and highly desirable to link indigenous banks and bankers with the central money market and provincial capitals. The existing branches of joint stock institutions and co-operative central banks can be utilised to facilitate the business of indigenous bankers. These institutions can be made use of for collection of the hundis that an indigenous banker might have discounted or by special arrangements to get his bills discounted by them on business terms. In this way it is possible to open up areas which are now suffering from want of banking facilities. At every district headquarters there is a central co-operative bank whose services also may be utilised for this purpose with advantage. Such local joint stock and co-operative banks will inspire great confidence among the indigenous bankers, if the services of the latter are utilised for the purpose of opening and giving credits to members of the public that may deal with the banks through them. Such an arrangement would, to an extent, benefit the indigenous banker and he will feel attached to a

joint stock bank for pushing business through him. Further, the local knowledge of the indigenous bankers will be of great help to the banking institutions to fix the credit-worthiness of various parties.

The indigenous banker usually does not deposit his surpluses in slack season in the joint stock banks but retains in his chest portions of them after reducing part of his liabilities; but, when there is stress for money, he resorts to joint stock banks for borrowing. So, these bankers have idle resources at certain seasons, while they are maintaining practically no resources at other times. The joint stock banks on their part are compelled to continuously maintain large resources owing to the absence of a Central Reserve Bank. The result is that such needless and idle portions of the reserves scattered among the numerous indigenous and joint stock bankers do not play their part in developing the resources of the country by being profitably employed. If there are proper arrangements to enable both indigenous bankers and joint stock bankers to rely upon each other and upon a central reserve institution in times of need, the resources that are idle at present can be more profitably employed.

Undue emphasis is laid upon the risks involved in connecting co-operative banks with this kind of business. There is no ground for such fear, as many of these co-operative institutions have run a life of 20 to 25 years and are found capable of handling business with due care and caution. They are also getting to be manned by well-paid, qualified and trained staff, and in the interests of improving the banking facilities, these institutions must take up courage in their hands and connect themselves with the business world.

Q. 4. We feel that so long as the Government of India have the control over currency operations, even the Imperial Bank is unable to so regulate its rate as to safeguard its own banking interests. This we gather was the effect of the non-official opinion expressed in the Central Legislature during the budget debate in March 1929. So the right solution of this question seems to be inextricably connected with the organisation of a Central Bank which will control both the currency and credit.

Q. 7. The management of co-operative banks is economical, for it is still partly honorary and where the services are paid for, the salaries of even the higher officials are smaller than those of men occupying similar positions in commercial banks, because competent men are attracted to the movement by idealism and love for the movement. The co-operative banks are bound by statutory rules to maintain certain standards of fluid resources and are also precluded from declaring high rates of dividends and are compelled to build up reserves rapidly by diverting 25 per cent. of their annual net profits to the reserve fund. In our answer to question No. 2 of Section III, we have indicated our view that similar, though not exactly the same obligations, should be cast on commercial banks regarding the maintenance of liquid resources, reserves and the like.

Q. 12. Some of the co-operative banks like other banks do small services to their constituents such as collecting interest on their securities, payment of insurance premiums, purchase and sale of Government paper and the like. We are not sure whether the word 'agency' used in the question refers to such services; otherwise we are not aware of any other kind of agency work done by co-operative banks.

Q. 14. We feel that indigenous capital must be preferred to foreign capital. We are in favour of a proportion of the receipts from cash certificates and savings bank deposits being diverted to give facilities to commerce, industry and agriculture in this country.

We have already stated that the Gold Standard and the Paper Currency Reserves must be transferred to India. We also feel that the resources of the insurance companies may be diverted to long term investments in co-operative land mortgage banks. The interest on the debentures of these banks is already guaranteed in all the provinces, either by the Government of India or the Provincial Governments and they can be easily declared to be trustee securities, if necessary, by rules made by the High Court in each province. Even if they are not so declared, the insurance companies can create power for themselves to so invest their money, which for practical purposes is long-lying money in this very safe mode of investment, *i.e.*, debentures of the land mortgage banks.

Q. 15. In the province of Madras, the Imperial Bank advances large sums to certain class of agriculturists on the pledge of produce. Except in the case of large producers this form of accommodation does not, however, ordinarily reach the agriculturist. It is the middlemen who store the produce and get advances, that are so accommodated. When the co-operative banks try to reach the smaller agriculturists by lending on produce, we notice a certain amount of dissatisfaction on the part of the Imperial Bank. We think that the Imperial Bank should encourage co-operative banks to supplement the work of facilitating produce loans through co-operative institutions to small agriculturists.

Q. 17. & 18. The question of the Imperial Bank's status is bound to arise, either when the period of its contract with Government is extended or when the question of starting the Reserve Bank is revived.

We may point out that in this Province the funds of the local boards and municipalities are allowed to be invested in co-operative banks and the extent of such investment to-day is approximately 2 crores. We understand that in this matter the Imperial Bank has practically a monopoly in other provinces. It is worthwhile considering whether the co-operative banks in other provinces might not also be entrusted with local and municipal money. Similarly, we see no reason why all departments of Government should be obliged to resort to only one bank. We understand that in Ceylon the different departments of Government are permitted to invest their funds in different banks approved by Government. We do not see any reason why such co-operative and joint stock banks as are approved by the Government of India should not also be trusted with the funds of the different departments of Government.

No. 19.

Statement of evidence submitted by Mr. A. Srinivasachari, Secretary, Srivilliputtur Co-operative Banking Union, Ramnad District.

III.—*Regulation of Banking.*

(1) I am in favour of audit and examination of bank accounts by examiners. They should be appointed by Government from Government Diplomates in Accountancy. Their duties should be to:—

(i) examine accounts of bank once every quarter,

(ii) publish reports of examination and communicate to banks concerned,

(iii) the assets of banks should be certified by the examiners in the annual audit,

(iv) balance sheet, profit and loss account and assets and liabilities also be furnished annually.

The cost of such audit and examination should be met by bankers themselves on a scale according to their transactions.

(2) I am for restricting business of banks in the following manner:—

(i) Short term business to be transacted by all banks except land mortgage banks, the period of repayment being 5 years as the maximum. Long term business to be transacted by land mortgage banks alone; repaying period to extend to 30 years in equated annual payments. Other details to be worked out by special enactments.

(3) The word "bank" should be restricted to such institutions as are registered under Imperial enactments with special restrictions imposed upon them for doing banking business such as (1) Co-operative Societies Act, (2) All-India Bankers Act or Reserve Bank Act, etc.

The banks or branch banks whose head office is located outside India should not be termed as "banks" nor should they be given the concessions like others in India.

(4) I am in favour of defining by legislation the sphere of operations of co-operative banks and exchange banks, etc.

(5) I wish that foreign banks should not be allowed to do banking business in India at all. There should be a general controller who should be an Indian invested with power to issue, review and cancel licenses even to Indian banks and to see the special legislation is observed correctly.

(6) The law governing Indian banks which are limited companies is not satisfactory. It should be amended giving facilities for winding up, control by shareholders, etc.

(*a*) At least 1/4 of the working capital should be covered by share capital subscribed.

(*b*) 50 per cent. should be authorized share capital.

(*c*) 25 per cent. of the profits should be in reserve each year until it reaches 50 per cent. of the authorized share capital and then it may be left to the discretion of the shareholders.

(d) A fluid resource system should be introduced by which security of repayment of deposit may be fixed.

(e) There should be half-yearly balance sheets prepared and forms also settled as in the case of co-operative banks.

(f) The District Court should be made the forum for expeditious liquidation or the District Registrar of assurances and depositors should be paid deposit amounts by liquidator through the agency of a bank.

(13) Banking companies are now paying income-tax, (2) super-tax. (3) companies tax. It does interfere with the development or amalgamation.

The only suggestion, I have, is that only one of the taxes, which is the highest, should be levied and apportionment should be made between the various bodies that are beneficiaries in a certain proportion. But the co-operative banks should be given the following special concessions and exemptions:—

(1) Income-tax for all co-operative banks.

(2) All companies' taxes also should be abolished.

(3) No super-tax should be levied.

(4) No fee should be charged for searching, *i.e.*, for encumbrance certificate for any number of years.

The reasons are (1) co-operative banks are financing rural agriculturists at a fixed rate of interest which is low and they are not profiteering concerns, and the ryots are paying land-tax separately. The co-operative banks being societies composed of ryots or agriculturists, any tax on co-operative banks will be only double taxation to the ryots.

IV.—Banking Education.

(1) There are absolutely no facilities for banking education in schools, colleges, and Universities. Nor is there any co-ordination of effort between such institutions and banks. Some optional subjects such as banking, auditing, commercial correspondence in schools cannot be expected to give the desired effect. There is no practical training given before examinations by such schools.

(2) At present, banks do not provide any facilities for the training of boys. There is no system in recruitment of staff anywhere.

(3) There is no practical instruction in banking given now, except in school of commerce and All-India Co-operative Institutes' Association which is recently started in Madras, the activities or scope of which cannot be gauged now.

(5) The only suggestion, I have, is that the constitution of the All-India Co-operative Institutes' Association should have the representatives of the Provincial Co-operative Bank and Provincial Co-operative Institutes on the Board of management without which no real benefit can be expected.

(6) The present position is highly unsatisfactory in Madras. The Madras Central Urban Bank or the Provincial Co-operative Union in the

metropolis being the non-official banking representative and the co-operative movement respectively appears to have had no knowledge of the constitution or the starting of the Institute. It shows the utter neglect or disregard of Government of the co-operative movement. On the other hand, the co-operative movement should have the leading voice in the Institute in settling the syllabus, the management, selection of candidates, examination and finance.

(7) There is no training given to the indigenous bankers at present. I do not think any is necessary.

(8) The prospects of boys trained in banking are at present almost nothing and in future also there is not much hope unless Government supports the banking institutions. The slow development of banking is due to lack of support of Government and not to the absence of trained men. Even when the co-operative banks are now conducted by trained men and controlled by Provincial Bank—a premier bank, the development is retarded by various obstacles due to lack of Government support. Otherwise there is no reason why the Imperial Bank all of a sudden should on 11th October 1929 issue circulars to co-operative banks insisting upon substitution of Government promissory notes, instead of bonds of unlimited rural societies and reducing drawing power on overdrafts proportionately in Madras and insisting on substitution immediately in Bombay. The Registrar of Co-operative Societies, Madras, foreshadowed this and gave utterance to such a scheme being in contemplation by the Imperial Bank. But no protest was entered into by the department. Even after resolutions of Bankers' Conference on 19th October 1929 at Madras requesting suspension of the above circular, the Imperial Bank is unyielding and tearse. Unless and until the angle of vision is changed there is no scope for development at all.

(15) (*a*) To my knowledge the Imperial Bank of India has not been serviceable to the main industries at all.

(*b*) It has not helped at all in any way the movement of crops.

(*c*) Exchange banks have been greatly helped.

(*d*) Little help has been given to ordinary banks.

(*e*) The Indian Provincial Governments have greatly benefited the Imperial Bank and they have been serviceable to Imperial Bank; the cash reserves or revenues of Provincial Governments have been advantageously utilised by the Imperial Bank and to that extent of being safe profiteering custodians, they have been serviceable.

(16) In the case of the Alliance Bank, the Imperial Bank had helped the liquidation proceedings.

(17) The present position is that the Imperial Bank is the *pro tanto* treasury of the Government monies and both are now treated as identical bodies except that hands working are different and management is different, but mainly controlled by the Imperial Bank Governors. In future, the same privileges as other banks will have, should be given to the Imperial Bank or there should be a contractual guarantee between the Imperial Bank and Government in the matter of accommodations being given to other banks by the Imperial Bank in accordance with the recommendations of Government.

(18) All monies of Government pass through the Imperial Bank. It is practically the cash chest of Government. Municipal and other corporations were till recently compelled to deposit only in the Imperial Bank for no interest at all. All these meant material gain and profit. The high dividends declared are all due to their facilities and privileges. These concessions should be taken away and given to co-operative banks wherever they function well and are approved by Government and only in the absence of such, the concessions should be continued to the Imperial Bank.

I am not for joint stock banks being given these facilities, but only to co-operative banks.

No. 20.

Statement of evidence submitted by Mr. R. N. Adarbad, G.D.A., F.C.R.A., L.A.A., Public Accountant and Auditor, Bombay.

I have the honour to make this representation to your Committee on a few points in relation to joint stock banks and banking institutions in India in which professional accountants and auditors are specially interested.

2. I may here state that I am connected with the Indian Society of Accountants and Auditors as its Honorary Secretary and Treasurer and as a member of its Council, and in that capacity I am the protagonist and the draftsman of the memorandum dated 12th June 1930 addressed to your Committee embracing the views of the Society on some points most of which frequently present themselves to auditors of banks in India. Thus it is that most of the views incorporated in the said memorandum of the Society, which was originally drafted and subsequently re-drafted by me, are mentioned hereinafter with some additions and modifications. Hence the similarity in language of the said memorandum of the Indian Society of Accountants and Auditors and the following paragraphs.

3. The primary function of any banking legislation in India should be to inspire confidence where it is lacking at present in the minds of the public, and specially in the minds of small investors, so that they may deposit freely in indigenous banking institutions which when conducted on liberal and enlightened principles, invariably conduce to the healthy economic and commercial growth of a nation. Keeping that objective in view I will now proceed to deal with some points in detail.

Use of the word " Bank ".

4. Only public limited companies which are established in India to carry on banking business, as laid down in their Memoranda of Associations, should be allowed to use the word " bank ". It follows, therefore, that any private limited company intending to do banking business in India should not be allowed to be registered in India as a " bank ". Likewise, an individual or a private partnership should be prohibited from using the words " banker " " private banker ", or " bank " in the name of his or the firm's business.

Foreign Banks.

5. In the best interests of the investing public in this country it is very desirable that there should be adequate control over all British and foreign banks doing business in India. That control could be effectively exercised by a special Banking Committee empowered to issue licenses of banks desiring to start or to continue doing business in this country. Some of the requisite conditions on which such licenses may be issued should be that they should prepare in prescribed forms balance sheets and profit and loss accounts of their entire business in India and publish and file the same, together with the prescribed Form " G ", with the requisite authorities as is being done at present by indigenous joint stock banks. They should, in addition, file in

India the annual balance sheets and revenue accounts of their whole establishments. These non-Indian banks should be compelled by law to register with the requisite authorities in India all mortgages and charges effected by them, either in India or in the land of their incorporation, and should maintain a register of all such mortgages and charges for the inspection of the public in India, as has to be done at present by all indigenous banks registered under the Indian Companies Act, 1913. Moreover, in the case of the winding up of any British or foreign bank doing business in India, Indian creditors and shareholders should have a priority, or a first charge, over the bank's assets in India without prejudice to their rights over the assets of the bank situated outside India.

Form "G".

6. I am of opinion that Form "G" which has to be exhibited by all banks in India under Section 136 of the Indian Companies Act, 1913, is defective in some essential respects, does not meet with the requirements of the public, and, therefore, needs substantial revision. It does not show a bank's liabilities on Current Accounts, Call Deposits, Savings Bank Accounts, fixed deposits, etc., nor does it show liabilities which are secured fully or partly against the bank's assets. Regarding the assets of the bank it omits to show cash credits, loans, overdrafts, securities other than Government securities, and shares in joint stock companies quotable on the Stock Exchange. It appears that the main idea of exhibiting Form "G" at a conspicuous place at the head office and each of the branches of a bank is to show to the public the position of the bank in connection with its liquid assets on the one hand, and liabilities at call or for fixed period on the other. If that be so, then the present Form hardly serves that purpose. I, therefore, suggest that Form "G" should be revised on the lines shown in Appendix I and that it should be made compulsory for all banks working in India, and that it should be prepared on the last day of every month and displayed as at present.

Profit and Loss Account.

7. I may draw the attention of your Committee to the provisions of the new English Companies Act of 1929 under which it is now obligatory for a public limited compnay to publish and file at least once in every year its last audited profit and loss account with the Board of Trade in addition to the balance sheet. I suggest that a similar provision should also be made in connection with all banks working in India and that a *pro forma* profit and loss account should be prescribed by law, and that all banks should be compelled to follow it so far as is possible.

Form "F" (Balance Sheet).

8. (*a*) I am of opinion that the present Form "F" (for Balance Sheet) as prescribed under Section 132 of the Indian Companies Act, 1913, according to which banks registered in India have to publish their annual balance sheets needs substantial revision on the lines shown in Appendix II. It is suggested that all non-Indian banks working in India, whatever be the country of their incorporation, should be compelled to publish in the prescribed Form "F" audited balance sheets of their affairs in India as has been the case so far with the banks registered in India.

8. (*b*) The present practice of publishing audited balance sheets of joint stock banks registered in India, at least once in every financial year, be continued and that all banks working in India, wherever registered, should be compelled to do likewise.

8. (*c*) In connection with the item of "debts considered good" appearing in the balance sheet it is very necessary that the various classes of the debts, and the nature of securities against which they are secured, should be clearly stated in the balance sheet in a classified Form as mentioned in Appendix II above referred to.

Bad and Doubtful Debts.

8. (*d*) In connection with the item of bad and doubtful debts I would like to draw the attention of your Committee to the rule recently promulgated by the Government of India under which banks are permitted not to disclose the item of doubtful debts on the face of the balance sheet in regard to which provision has been made to the satisfaction of the auditors. Before that recent change it was usual to show such doubtful or bad debts clearly in the balance sheet together with the provision made therefor. I believe that the said change cannot be said to be in the best interests of the creditors or depositors of a bank, nor of the investing or commercial public. In my opinion a balance sheet so prepared can be said, only after a stretch of imagination, "to exhibit a true and correct view" of the state of a bank's affairs and is potentially of much mischief as can be easily understood. Moreover, an auditor of a bank being not an expert in the technics of banking it is too much for him to know exactly whether particular debts which are doubtful have been fully covered in some way or not. He will then have to reply on the information and explanations given to him by the bank's officials who are evidently interested parties. Moreover, owing to this amendment the auditor is left to be the sole arbitrator to decide whether ample provision has been made for all bad and doubtful debts which would enable the bank's officials to efface altogether the whole item of such bad and doubtful debts from the balance sheet. Such a position is clearly very risky and unsatisfactory from all points of view. I, therefore, submit that as was the case uptill recently before the promulgation of the rule above referred to bad and doubtful debts of a bank should be clearly and separately shown in the balance sheet of the bank.

8. (*e*) Loans granted by a bank to a limited company, any directors of which are also directors of the lending bank, should be separately shown. Similarly, loans granted to a limited company in which any of the bank's directors are members of the managing agents' firm, should also be stated separately.

8. (*f*) Loans granted by a bank to its directors, managing director, manager, and secretary, including the sums repaid by them during the currency of a financial year, should be stated separately in the balance sheet with proper classifications. They should not be mixed up under one heading with the loans granted by the bank to its other officers and employees.

8. (*g*) Investments of a bank should be classified as (1) Trustee securities, (2) shares in joint stock companies quoted on the Stock Exchange, (3) shares in subsidiary companies, (4) debentures, and (5) other scrips and papers. I suggest that it should be made obligatory by law that all investments of the

kinds referred to in this paragraph, which are held by a bank should be valued for the purposes of its balance sheet at or under market price, and that this fact should be clearly stated on the face of the balance sheet.

8. (*h*) I suggest that reserve and other funds created by a bank for specific purposes should be separately stated in the balance sheet and should not be lumped up under one heading.

8. (*i*) Liabilities of a bank on current accounts, savings bank accounts fixed deposit accounts, as well as liabilities for bills accepted, and loans borrowed from other banks should also be stated separately and should not be mixed up under one heading.

A Special Statute.

9. Banks which are limited liability companies registered in India are at present governed by the law of joint stock companies in India. In my opinion that position might be improved upon with a view to regulate banking in India along more healthy and progressive lines. All banks working in India, whether registered in India or elsewhere, should be governed by a separate and comprehensive Act of the Indian Legislature as is the case with insurance companies, co-operative societies, provident insurance societies, etc. In this connection I suggest that no bank in India should be allowed to start or carry on its business unless at least 25 per cent. of its subscribed capital is paid up.

Uncalled Capital.

10. I am of opinion that there should be a statutory obligation on all banks, whose head offices or subsidiaries are registered in India, that they shall not create any mortgages or charges on their uncalled capital, or any part thereof, at any time during their existence. Such a provision will go a long way to protect the interests of the creditors of the banks and would stimulate greater confidence in the minds of the investing public as to the position of banks and banking institutions in the country.

System of Managing Agency.

11. I am of opinion that the system of managing agency as applied to joint stock banks in India is both unnecessary and undesirable. Almost all leading banks in India at present, Indian as well as non-Indian, are being run without being controlled by managing agents, and there is no reason why as a result of the experience gained of the system of managing agency in India, a statutory provision should not be made before it is too late prohibiting the advent of managing agents in the field of banking.

Composition of the Board of Directors.

12. Regarding the composition of the Board of Directors of a bank registered in India, I suggest that looking to the vast interests of the creditors and of the investing and commercial public, it will be desirable and equitable if some scheme is evolved under which a substantial number of directors of a bank are elected by the depositors of the bank who are not also its shareholders and who include among themselves the holders of current savings bank or fixed deposit accounts and who have balances to their credit during the

major portion of a financial year of at least some minimum amounts to be fixed. It may be pointed out here that a similar practice is followed by some life assurance companies in which some of the directors and even auditors are elected by the policy-holders. I commend to your Committee the healthy and progressive principle underlying this practice.

Voting at General Meeting.

13. I suggest that in order to protect the interests of small and middle-class investors and with a view to determine the interests of large shareholders within reasonable bounds, there should be some statutory provision under which the power of voting of shareholders holding a number of shares larger than a fixed number is effectively and proportionately curtailed. Such a practice will minimise the adverse effect of block votes controlled by persons who think that they have preponderating vested interests of their own in the affairs of limited liability concerns including banks. Further, such a statutory provision will create a feeling of greater safety and confidence in the minds of the middle-class investors whose voice at the present moment is not effectively heard in the management of joint stock concerns. I understand that the course suggested in this paragraph is already in vogue in the case of a few well-known banks in India and Great Britain.

Government Examiners of Bank Accounts.

14. I am in favour of the audit and examination of bank accounts by Government examiners in addition to the usual audit on behalf of the shareholders of the bank by the auditors appointed by them. Such a course may tend to inspire greater confidence in the minds of the investing public in India. Moreover, the interests of the creditors and depositors of banks can be effectively looked after by a neutral and impartial agency like that of the Government Examiners of Bank Accounts. I may here invite the attention of your Committee to paragraph 11 of the Report of the External Capital Committee in which a reference has been made by that Committee to the same question. For your reference paragraph 11 of the said Report is quoted hereunder :—

> "There is a marked trend of opinion in many of the replies that Government should take a more active part in watching over the development of banks. Professor Stanley Jevons is 'of opinion that the development by banking organisation in India would be greatly stimulated if the Government of India would undertake the inspection of joint stock banks, to see that proper practices are being observed, and particularly to detect transactions detrimental to the interests of depositors and shareholders at an early stage, and by fear of detection to prevent them.' He is followed by Dr. Gilbert Slater who is also in favour of the examination of the suggestion that there should be a department for the registration and inspection of limited liability companies with a competent staff of auditors and powers to detect and penalise fraud. * * * * "

I may also point out that a somewhat similar course is followed by many co-operative bodies in Western India registered under the Bombay Co-operative Societies Act, 1925. Regarding the qualifications of these examiners of accounts I am of opinion that they should be persons who are trained and

qualified and have passed in India the final examination for the diploma of "I. R. A." (Indian Registered Accountant) under the Indian Companies (Amendment) Act, 1930.

Auditors.

15. I am of opinion that any persons may be appointed as Auditors of banks working in India whose names are enrolled on the Indian Register of Accountants, shortly to be opened under the authority of the Governor-General-in-Council under the Indian Companies (Amendment) Act, 1930. I am strongly against the idea of restricting the selection of bank auditors to only a few among the qualified auditors referred to above who may be favoured by Government with some kind of special permits to conduct bank audits. The final arbiters or selectors of auditors should be the investing public themselves.

16. In this connection I draw your attention to the provisions of the Dominion of Canada Bank Act, 1923, under which auditors of Canadian banks are appointed every year by the shareholders on condition that no auditor or firm of auditors shall remain in office for more than two consecutive years. For the information of your Committee the relative Clause of the Act is quoted hereunder:

> "The shareholders shall at each annual general meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank, but if the same two persons or members respectively of the same two firms have been appointed for two years in succession to audit the affairs of any bank, one such person or any member of one such firm shall not be again appointed to audit the affairs of such bank during the period of two years next following the term for which he was last appointed."

On the lines of the provisions of the aforesaid Canadian Act I strongly urge that under a statutory obligation there should be at least two auditors or firms of auditors of every bank working in India, Indian as well as non-Indian, that no auditor or firm of auditors of a bank shall remain in office for more than two consecutive years, and that once an auditor or a firm of auditors has vacated the office for any reason whatever, he or it should not be appointed as auditors of the same bank for the next following seven, five or at least three years consecutively. I should emphatically say that in any scheme for the regulation of banking in India in near future a statutory provision for the appointment of bank's auditors should be made along the lines referred to above. Such a provision will give more chances to the investing public to have control over auditors and will give the public greater utility of the services of qualified persons like professional accountants and auditors. I may here point out that the disclosures made in the cases of the liquidation of some joint stock banks amply justify the pressing need of a statutory provision in India on the lines of the Dominion of Canada Bank Act, 1923, referred to herein. Such a provision will go a long way in inspiring the confidence of the public, which is at present lacking in the stability of banks and banking institutions in India, and consequently would indirectly help to minimise the habit of hoarding among the Indian public.

17. Banks should be prohibited by law from granting loans to their auditors either jointly with other persons or severally, on short or long term,

with or without security. Looking to the position occupied by a bank's auditors it is imperative that such advances made either directly or indirectly should be prohibited by law on principles of public policy. Such advances are prohibited by statutes in many countries, *e.g.*, in the State of Victoria (Australia) and in Canada by their respective Companies Act of 1915 and the Bank Act of 1923. For the information of your Committee I quote hereunder Section 120 (4) of the Companies Act, 1915, of the State of Victoria (Australia).

> " No person shall be competent to be appointed or act as auditor who is or becomes indebted to the company. If any person after being appointed an auditor becomes indebted to the company his office shall thereupon become vacant."

18. I may here draw the attention of your Committee to an unhealthy practice that is increasingly followed in the case of banks and limited liability companies. Under the Indian Companies Act, 1913, the remuneration of auditors is fixed as laid down under Section 144 (9) at general meetings of the companies or banks concerned. This remuneration is deemed only for auditing the balance sheets of the companies. In addition to this remuneration fixed by the shareholders, auditors are frequently paid by the directors, managing agents, or other officers of the companies concerned some extra fees, charges, or remuneration for doing accountancy work or for rendering some extra professional services. Sometimes it happens that this kind of extra remuneration paid to the auditors at the absolute discretion of the directors or officers is much larger than that voted by the shareholders at annual general meetings. This private extra remuneration to auditors is not paid with the sanction of the shareholders, nor is it even brought to their notice. Obviously such a practice is against the spirit of the procedure of voting the remuneration of auditors publicly at general meetings of shareholders. I, therefore, emphatically urge that there should be a statutory obligation in future that any remuneration, allowances, fees, charges, etc., paid to auditors for any kind of service rendered by them should be sanctioned or confirmed by the shareholders, and further that the aggregate amount of such fees, remuneration, etc., should be clearly stated on the face of the profit and loss accounts of the banks without being lumped up with any other item of expenditure, *e.g.*, directors' fees and allowances.

Indemnity Clause, etc.

19. I find that of late there is an increasing tendency to insert an Indemnity Clause in the Articles of Association of joint stock companies in India relieving their directors and auditors from all liability for negligence in discharge of their duties except on the grounds of wilful default or dishonesty. I suggest that, as has been done under the new English Companies Act, 1929, such a clause be declared void in the case of banks in India. I also suggest that the auditors of a bank should be allowed to attend all general meetings of the bank without any hindrance.

Rights of Prosecution.

20. It is suggested in certain quarters that the right that is at present enjoyed by a shareholder under Section 282 of the Indian Companies Act, 1913, of taking criminal proceedings against the directors and officers of a bank should be substantially curtailed especially in the case of a bank, and

that a shareholder should be compelled to obtain the previous sanction of the Honourable the Advocate-General, or of the Public Prosecutor, or of a Judge-in-Chambers before instituting proceedings against the directors or officers of a company or a bank registered under the Act. I am of opinion that on the whole this right given to the shareholders has been wisely and properly exercised by them and that a good case has not been made out for a change in the existing law. Moreover, the Honourable the Advocate-General, or the Public Prosecutor, or the Honourable the Judge-in-Chamber will have to give his sanction if a *prima facie* case for prosecution has been made out before him. The very fact that the sanction has been granted by such a high legal or judicial authority in the country will be sufficient to create a panic or a prejudice against the bank in question and the depositors and creditors may make a rush to withdraw their funds from the bank. Even though afterwards the prosecution may collapse, sufficient harm to the credit of the bank will have been done before that time. On the other hand, if a prosecution is instituted by an individual shareholder on his own initiative and without the formality suggested in the quarters referred to above, it is not likely to create the same kind of panic. Moreover, the change as proposed will be vexatious to the shareholders and creditors as a whole. I would like to point out that this right of prosecution is a very valuable and equitable right and has resulted often in disclosing to shareholders some important facts relating to joint stock companies in India. Under the circumstances I do not favour the curtailment of this equitable right that is enjoyed at present by the shareholders of companies very judiciously on the whole.

Insolvent Directors and Officers.

21. I would suggest that there should be a legal prohibition against anybody who has become a bankrupt, or filed a schedule in bankruptcy from being allowed to be a director, managing director, or manager of a bank working in India. I note that a somewhat similar recommendation was made in the Report of the "Greene Committee" (paragraphs 56 and 57) that was appointed to revise the old English Companies Act, 1908.

Loans to Directors and Officers.

22. I am of opinion that advances to directors of a bank either jointly or severally without full security should be prohibited. The amount of all loans advanced to or guaranteed by a director (and any amounts repaid) during the period, and the nature and amount of security given by him to cover the loans should be clearly stated in the balance sheet. Moreover, any loan granted to a director should be authorised by the Board of Directors of the bank. If, however, for any reason your Committee decides not to recommend a statutory prohibition against the grant of loans to directors of a bank without full security, then it should be provided that such loans or advances given to a director (including loans or advances repaid) are clearly and separately stated in the balance sheet as shown in Appendix II.

23. I suggest that loans granted to or guaranteed by other officers or employees of a bank of whatever amount should be authorised by the Board of Directors and should be clearly and separately stated in the balance sheet as shown in Appendix II.

Statements of the affairs of a Bank.

24. I suggest that in the case of all banks in India there should be a statutory provision on the lines of Section 54 of the Dominion of Canada Bank Act, 1923, which runs as follows :—

> "Directors shall also submit to the shareholders such further statements of the affairs of the bank as shareholders require by bye-law passed at the annual general meeting or at any special general meeting of the shareholders called for the purpose."

Winding up.

25. In the case of liquidation of a bank in India there should be a statutory provision for the appointment of a Committee of Inspection on the lines similar to the English Companies Act, 1908 and 1929. Such provision would inspire confidence among the creditors of a bank and serve as a wholesome deterrent to the directors, officers and liquidators of banks in general. Moreover, in a country like India where depositors and shareholders are not generally so well-informed as in the countries of the West and have little effective control over their directors and officer, it is all the more necessary that a provision of this kind should be incorporated in the statutes so that the interests of investors may be looked after by their own representatives during the conduct of liquidation.

26. I am further of opinion that no person who was a director, auditor, officer or employee of a bank prior to its compulsory liquidation or who held any other place of profit under it should be allowed to be a liquidator of the bank.

27. I may draw the attention of your Committee to a fundamental change of principles that has taken place in England recently under the English Companies Act, 1929, under the provisions of which the conduct of liquidation of any company is mainly vested in the hands of the creditors of the company on certain conditions. In the interests of the investing public who have a greater stake in the liquidation of a bank than its shareholders such a practice should also be followed with advantage in India.

28. Regarding the powers of the liquidators I have to invite the attention of your Committee to the dangerous practice that is sometimes followed in India of laying down certain conditions in the resolutions appointing the liquidators in voluntary liquidations which would deprive the liquidators of some of their powers generally vested in them by law. In a recent Indian case before the Privy Council this unhealthy practice came under criticism of their Lordships. I emphatically recommend that such restrictions on the rights, liberties and duties of liquidators should be prohibited in the best interests of the public.

Restrictions on Banks' Business.

29. Regarding the business of a bank I suggest that banks should not be allowed to advance any loans on the security of their own shares as this may lead to the banks getting direct or indirect control over their shares.

30. I am of opinion that no bank should be allowed to hold any real or immovable property except bank premises for its own use for more than a maximum period of years to be prescribed by law. In my opinion such a statutory provision would effectively prevent banks in India from locking up for an extended period large sums of money in doing business in landed

APPENDIX I.

Proposed Form "G" for Banks.

1. The share capital of the Bank is Rs. divided into shares of Rs. each.

2. The number of shares issued is . Calls to the amount of Rs. per share have been made, under which the sum of Rs. has been received.

3. Uncalled liability of the shareholders on shares subscribed is Rs. at Rs. per share.

4. The liabilities of the Bank on were :—

	Rs.
(a) On Current Accounts, Call Deposits and Savings Bank Accounts	..
(b) Fixed Deposits	..
(c) Due to Banks, Agents and Correspondents	..
(d) Due under the security of the whole of the assets shown below—	..
(e) Due under the security of the part of the assets shown below :—	..
(f) Bills payable and other sums due by the bank	..

5. The assets of the Bank on were :—

(a) Cash in hand, at Banks, and bullion on hand	..
(b) Government and Trustee Securities at or below market price	..
(c) Shares in Joint-stock companies quoted on the Stock Exchange at or below market price	..
(d) Other Securities and papers	..
(e) Cash Credits, Loans, and Overdrafts . .	..
(f) Bills discounted less rebate thereon . .	..

properties which otherwise would have found their rightful place in financing the trade, commerce and industries of the country. In this connection I may add that in Canada a similar provision has been enacted under the Dominion of Canada Bank Act of 1923 and it runs as hereunder :—

"No bank shall hold any real or immovable property, howsoever acquired, except such as is required for its own use, for any period exceeding seven years from the date of the acquisition thereof, or any extension of such periods as in this Section provided, and such property shall be absolutely sold or disposed of within such period, as the case may be, so that the bank shall no longer retain any interest therein by way of security.

"The Treasury Board may direct that the time for the sale or disposal of any such real or immovable property shall be extended for a further period or periods, not to exceed five years.

"The whole period during which the bank may so hold such property under the foregoing provisions of this Section shall not exceed twelve years from the date of the acquisition thereof."

31. In conclusion I may add that I have not attempted to deal with all questions set forth in the questionnaire of your Committee but, as mentioned before, have only touched upon those points regarding the accounts, audit, and organisation of banks in India that present themselves frequently to the notice of auditors.

APPENDIX II.

Proposed Form "F" for Banks.

Capital and Liabilities.

Capital—

Authorised Capital shares of Rs. each . . .
Issued Capital shares of Rs. each . . .
Subscribed Capital shares of Rs. each . . .

Amount called up at Rs. per share less calls unpaid .

Funds—

Reserve Fund .
Contingency Fund .
Bad & Doubtful Debts Reserve
Investments Fluctuation Reserve . .
Buildings Depreciation Fund . . . .
Employees' Provident Fund Rs. less Investments for the Provident Fund Rs. .
(Stating kinds and mode of valuation of the Investments)

Liabilities—

Current and Savings Bank Deposits . . . . .
Fixed Deposits . . . .
Debts due to Banks, Agents, etc., fully secured against Securities as *per contra*. (Stating the nature of Securities) .
Debts due to Banks, Agents, etc., unsecured . . . .
Bills payable . . . .
Acceptances for customers as *per contra* . . .
Bills for collection — being Bills Receivable as *per contra* .

Sundry Creditors . . .

Unclaimed Dividends . .

Rebate on Bills Discounted .

Profit and Loss Account :— .

Carried over Rs.

Property and Assets.

Cash—

Cash in hand . .
Cash at Bankers . .
Deposits at Call and Short Notice . . . .
Bullion in hand . .

Investments—

Trustee or Gilt-edged Securities. . . . .
Debentures of Joint-stock Companies . . .
Shares in Joint-stock Companies quoted on the stock Exchange (at cost or market price, or where this is not possible, on some other basis which must be specified) . . .

Shares in Subsidiary Companies . . . . .
Other scrips and papers .

Loans and other Advances—

Cash Credits and Demand Advances . . .
Loans . . . .
Bills Discounted . .

Particulars required by Act VII of 1913—

(1) Debts considered good which are secured against the following securities :—

(*a*) Government Loans, Bonds, other Trustee or Gilt-edged Securities.
(*b*) Debentures of Joint-stock Companies.
(*c*) Shares in Joint-stock Companies quoted on the Stock Exchange.
(*d*) Other scrips and papers.
(*e*) Immovable property.

Carried over Rs.

Proposed Form "F" for Banks—contd.

Liabilities	Rs.	Assets	Rs.
Brought over Rs.		**Brought over Rs.**	
		(2) Debts considered good secured by personal liability of one or more parties as under :—	
		(*a*) Debts due on Bills Discounted.	
		(*b*) Debts due on joint and several Pro. Notes.	
		(*c*) Debts due on temporary Overdrafts, Demand, Cash Credits, Personal Security, etc.	
		(3) Debts due or guaranteed by Directors of the Banks personally or jointly with other persons and fully secured.	
		(4) Debts due or guaranteed by Directors of the Bank personally without security.	
		(5) Debts due or guaranteed by Directors of the Bank jointly with other persons and remaining unsecured.	
		(6) Debts due by Joint stock Companies guaranteed by their Managing Agents, a Director of the Bank being a member of the firm of Managing Agents.	
		(7) Debts due or guaranteed by Auditors of the Bank personally or jointly with other persons either with or without security.	
		(8) Debts due or guaranteed by officers of the Bank other than Directors and Auditors personally or jointly with other persons, and remaining unsecured.	
		(9) Debts due by officers of the bank other than Directors and Auditors personally or jointly with other persons, and fully secured.	
		(10) Debts considered bad or doubtful.	
		Bills Receivable as *per contra* and Treasury Bills.	
		Customers for acceptances *per contra*.	
		Land and Buildings (at cost) less Depreciation written off.	
		Furniture and Fixtures (at cost) less Depreciation written off.	
		Other Assets	
Total Rs.		**Total Rs.**	

Contingent Liabilities :

No. 21.

Statement of evidence submitted by Mr. S. V. Ayyar, M.A., The University, Dacca.

1. Banking Education.

There are a number of Universities in India at the present time which purport to give a training in banking as part of a course in commerce leading up to a degree. The Sydenham College at Bombay is one of the most important of the many institutions that seek to do something in this matter. At Cawnpore, at Calcutta, at Dacca, at Lahore, and also at Lucknow and Allahabad attempts have been made to prepare students for a commerce degree and in the course of studies, 'banking' takes a not very important place. In my view most of these courses at these Universities are a mere eye-wash to placate the so-called public opinion of democratised Universities and suffer through lack of co-ordination not only of the Universities, but also of the businessmen in most of these centres. I have been for a number of years connected with the Board of Studies in Commerce at Dacca, but so far I am yet to see that the mercantile community either at Dacca or Naraingunj takes a genuine interest in the progress of the Department of Commerce at the University. I do not believe that other centres have been brilliantly successful in making their courses practical. Students have little opportunity to see a good bank at work and in most cases they do not have a clear idea of the many functions of a bank and how such functions are discharged. Further, ideas of responsibility and character which are of the essence of a banker's life can only be realised when young men see things for themselves. Obviously a text-book on banking cannot take a young man very far. My deliberate impression is that unless something is done to rope in the mercantile community—both Indian and European—and create in them an interest in the training at the colleges our work would be a hopeless waste.

2. Opportunities for young men.

I am of the view that there is very little scope for a successful young man out of college in the banking world in India. Except for an occasional probationership in the Imperial, there are no safe billets in banks in India. Banks have not shown any very pronounced preference for our economics or commerce graduates. I know of cases where the Imperial Bank has taken men with a degree in Philosophy or Science as probationers The Indian Bank at Madras is also showing some encouragement. But the prospects are far from encouraging.

This difficulty in my view is again the result of an indifference of the responsible banking leaders to the educational system. They would neither assist nor correct, and the result is again a great loss of human material at the Universities.

I have not much faith in sending out young men to countries outside India unless it be that in the meantime we can re-arrange the banking possibilities in the country. The best thing would be to send out some persons who are already in employment with a view to their being more

useful to the bank which would receive them on their return. An Institute of Bankers in which a beginning has already been made in India would undoubtedly go a long way to correlated and developed banking education. The Institute must devise some workable scheme by which students from colleges after a theoretical course may be able to have a practical training at some bank recognised by the Institute and for a period prescribed by the Institute. But if the Institute is to succeed, obviously there ought to be very good co-operation from, as well as, of banks of all kinds in India.

The education of the indigenous bankers is essentially traditional, but also wonderfully practical. I believe something may be done to improve their business outlook by arranging short courses of instruction through the means of the vernacular on the principles of banking. This work can be done under the joint auspices of the Institute of Bankers and the Universities. The film can also be utilised considerably to interest the people in the romance of banking and its close connection with a nation's progress or decay.

The present position is distressing in the extreme and I believe the time has come for a great 'drive' in the development of banking of all sorts in India. If only Government had devoted as much attention to the general development of banking as they did in the matter of 'co-operative banking', a great deal would have been achieved by now. We have not studied indigenous banking properly or sympathetically and we have built from above. The result is that we have banking of sorts, but it is supremely wasteful and unorganised.

General Banking Organisation.

I am deliberately of opinion that the time has come when the Imperial Bank of India must be re-organised. It has so far occupied a very peculiar place in the banking world of India, and while not denying the great services it has done I cannot help feeling that had it not occupied the position of the Government banker exclusively, other banks would have been worked up. Neither in composition nor in policy was it a State bank with the responsibilities attaching to that position and if it had a progressive policy, it might have gone further in doing good to the country. I am of opinion that a Central Bank is imperatively necessary and the earlier a decision is arrived at on this matter the better for the country. It ought to be possible for Government to come to an understanding with the Legislature as to the actual details of the organization for there was not much difference of opinion about the need.

So long as the Imperial Bank is what it is, real co-operation would be difficult, if not impossible—for reasons which it is not necessary here to enter into in detail.

A system of registration of indigenous bankers would go some way to bring about some co-operation between the indigenous and other banks.

My answer to question 14 of section 5 would be this: I would welcome all methods suggested, provided that foreign capital does not mean foreign agency for the work in India. But I would certainly feel that tapping internal resources is by far the most important. Government's setting apart a portion of its receipt from cash certificates as also savings bank deposits is also a move in the proper direction.

In the matter of the establishment of a Central Bank in India my view is that the history of the question has shown that the 'better is always the enemy of the good'. A shareholders' bank may be desirable, judged from the experience of some western nations, but the peculiar circumstances of India make it necessary to consider the question from many standpoints. I believe that if the Government of India would agree that only Indian subjects of His Majesty—including those with an Indian domicile—shall be entitled to hold shares in the Central Bank and that no transfers to non-Indians would be allowed without the approval of Government, a great part of the suspicion would cease, and India may still have a shareholders' Central Bank. If the idea of a Central Bank as apart from the Imperial Bank is accepted as desirable, then, whatever advantages are sought to be given to the Imperial Bank should in common fairness be extended to other approved banks. I do not think any compensation to the Imperial Bank at any stage is necessary or justified. If anything, Government is entitled to ask for compensation.

3. *Regulation of Banking.*

I am certainly in favour of audit and examination of bank accounts by examiners who would command the confidence of both Government and the public. I would suggest that Government and the Institute of Bankers may co-operate to form a Board of examiners of accounts and the actual appointment to any bank for the time being may be done by the Institute subject to the approval of Government. The duties of the examiners should include apart from the actual examination of accounts the privilege of bringing to the notice of the Institute and through the Institute, of Government, any dangers in the work of any particular bank. He must be independent of the bank whose accounts he is asked to examine. The cost of such examinations must and can be met by a contribution from each bank according to the work done by each or on the basis of paid-up capital.

I do think some broad restrictions may be made, but the nature of such restrictions would require very serious consideration. I have not yet made up my mind about the details.

Yes, I am in favour of defining by legislation the sphere of operations of different classes of banks.

I am very clear in my mind that foreign banks doing business in India should not be allowed to do so without a license. I will include in my definition of the word 'foreign' for the purpose of this section British banks with head offices in the United Kingdom and controlled by Britishers.

If the operations of any such bank are of an all-India nature, the Government of India may give the license, but otherwise the local Government must be the authority to decide. Licenses should be only for a short period and should be revocable at the discretion of Government. In every case a license fee ought to be charged. Government may ask for and receive the assistance of the Institute of Bankers before deciding on issuing, renewing, or cancelling licenses to foreign banks.

In regard to question 6, I feel very strongly that something should be done to correlate the figures of authorised and subscribed capital. It is also necessary to insist that no joint stock bank should start business

unless it has a paid-up capital up to a minimum. There should also be some statutory provision that cash balances must have some relation to the liabilities of banks. There is no doubt that it would be desirable that there should be a provision in law that balance sheets should be prepared and published at any rate from month to month.

I do not believe that as things are in the banking world, any scheme for regulation of expeditious liquidation by advance payment is possible, for this will obviously depend to a large degree on the co-operation of the banks which at the present time does not exist to such a desirable degree. A scheme may be possible when a Central Bank is established and when all banks in the country would be affiliated in some close degree with such an institution.

Bank failures in India are as far as I know largely due to the abuse of their trust by bank directors and in some degree by speculation in investing funds in questionable securities. It is extradinary that jointstock banks could give five and six per cent. interest to their customers on deposits when they themselves cannot reasonably invest at more than five per cent. unless they speculate. I have been surprised by the offer of some banks of five per cent. on floating deposits. I am also told that in some loan companies in Bengal interest is charged to those who take loans at rates which go up to 50 per cent. and more even when security is offered. Obviously either the security is worse than useless or we have a new edition of the Mahajan in loan bank without his human sense. This is not business but fraud on the community.

Question 12 is a very difficult one, but I think the time is not yet. I do not think the cases have been frequent and any legislation would at present defeat its purpose. In securing the good we may also secure the stupid. The onus of proof must always lie on the directors of the bank affected and in any case the idea of legislation may wait.

I would suggest that Government may waive taxes on the profits of joint stock banks provided that such profits are utilised to develop a reserve fund and also to give a dividend on paid-up capital at a rate not exceeding 5 per cent. for the first 5 years after the start.

SECTION 1.

Credit facilities for India's main industries.

I believe assistance to industries can be given very much better than now. The difficulty is that the Imperial Bank which may be in a financial position to do it is prevented from doing certain things by the law creating it. Firstly, rightly or wrongly it has been alleged that the same principles are not applied in granting loans or overdrafts as between Indian and European customers of the bank. It may or may not be true. Secondly, the bank has no definite industrial bias. Other banks—especially Indian—are too much afraid to have a bold policy, and the example of the Tata Industrial is still in the minds of Indian bankers.

I believe a re-organisation may be desirable and a separate department of technical advisers may be attached to some of the more important

banks or at any rate the advice of such a responsible body may be made available to the banks to assist them in coming to a decision about granting assistance.

If a Central Bank is established, an attempt can be made to start industrial banks who would be in direct touch with the Central Bank and could work under their general direction about assisting industry. Undoubtedly some restrictions on the grant of credit for industrial purposes would be necessary to prevent dangerous speculation, but this can to a certain degree be reduced if banks assist only on the recommendation of a body of qualified and independent men who have experience of the technique of the industry concerned.

No. 22.

Statement of evidence submitted by Mr. J. M. Baguley, I.C.S., High Court of Judicature, Mandalay.

The first thing that occurs to me on reading the questionnaire is "is this a banking enquiry at all?" And, if so, "what is meant by banking?"

I was born in a bank, and my idea which is I think the English idea of a bank is an institution that accepts the money of the persons who deposit it with them for safekeeping, and under certain circumstances, allows them a low rate of interest on their deposits. The first duty of every English banker, brought up in the traditions of English banking, as typified by the "Big Five," is towards his depositors. Safety first is the motto all the time. It may be stodgy, it may be unenterprising, but it does result in banks into which the public can place their money, and make certain of getting it back again when they want it, or when it falls due. It is for this purpose that the "Big Five" keep, absolutely unproductive, anything from 10 to 12 per cent. of their total deposits in hard cash in their tills.

Reading through the questionnaire there is practically no reference at all to depositors. In Part III, in connection with liquidation of banks one does find reference to the proposed creation of something like secured deposits (question 11), with the idea, it would seem, of having some deposits absolutely safe, while other deposits in a bank are to be regarded, it would appear, as more or less gambles, and gambles they would be if banks were to take on the role that seems to be envisaged in this enquiry, and lay themselves out to help industry beyond even the stage already reached by the German banks. The whole angle of vision of the inquiry seems to suggest that banks are moneylenders and financing houses, not money borrowers whose first duty is to the persons who have lent them the money. Recent years have, I consider, justified the English practice thoroughly. Europe indulges in a war for over 4 years, the German Marks diminish to size of an electron, Wall Street may crash so that bankers loans there halve themselves in a fortnight or so, one of the "Big Five" takes a knock in the Hatry affair to the extent, it is whispered, of eight million sterling, but will any of them show it in their accounts or pass (or even reduce) their dividend. I trow not.

The present questionnaire appears to concern itself entirely with banks as moneylenders and financing houses. The point of view is that this lending and financing shall be regarded entirely from the point of view of the borrower, not of the lender. The benefit of the producer and of the community at large is to be sought for, not the benefit of and the safety of the depositor. I am well aware that this is the day of the armchair theorist, and there is a certain school of thought which holds that banks have unlimited power to restore production and that a change in the financial policy of the Bank of England would reduce the number of unemployed in England even more rapidly than Lloyd George's election cry claimed to be able to do, but not one of the people who hold that view ever had any practical experience of the inner workings of a bank, it is armchair theory. The interest of the community is best served by making for safety, and ensuring that money put into a bank will be repaid when wanted, if it is on current account and when the term of deposit

comes to an end, if it is a deposit account. Financing is an essential part of business, and long term financing is very often required by industry, but long term loans cannot safely be made out of deposits payable at call, except to a very small percentage, and long term financing is the metier of financing houses who work with their own capital, with loans made to them for long periods, or who have other sources of credit that will enable them to get loans from banks, which are payable at short notice, and can be repaid at short notice if called in owing to their other sources of credit.

The questionnaire adverts to co-operative banks. I would draw their attention to the co-operative movement in Burma, and the blackened walls of the Mandalay Central Co-operative Bank. Also the recent report of the Burma Co-operative Enquiry Committee which no doubt they will be able to obtain. I know nothing about Indian co-operative banks, but in this province there can be only one answer with regard to them, and that is, wind them up.

Part I question 4 refers to banks specialising in dealings with special trades. I am unable to fathom the meaning of this. Is the idea that banks should endeavour to localize themselves to one particular trade, get their deposits from that trade and make their advances to that trade also? What would happen to a bank that had done that to the rubber industry lately, or the coal mining industry at home. Banking in a way is like insurance, where the distribution of risks in large numbers of units, each small as compared with the total, results in safety. At the worst of a slump in a trade all firms, and sometimes their employés too, will be wanting overdrafts, and what would happen to a bank if all its customers wanted to overdraw at the same time? If the idea is that even such banks should collect deposits from the general public and specialize in one particular industry for making its loans and advances, it would again offend against the canon of safety first. All one's eggs should not be put into one basket, still less should one borrow the eggs of the public and put them all into the same basket. The banker, even more than the insurance underwriter, ought to spread his risks, both geographically and also by spreading over as many industries as possible. I remember some years ago a successful agricultural bank that was thinking of splitting up into a connected chain of district banks. I was asked for an opinion as an outsider and I strongly urged against it. The district was too small a unit. It might be devastated by floods, cattle disease, sickness, or some such calamity, which might have brought down one of the chain of banks which in its turn might have affected the others by loss of confidence, whereas if the bank were kept one it could afford a loss in one district. I am glad to say that the bank did not split up and has grown ever since that date.

The idea underlying the questionnaire seems to be that people who want to borrow cannot get the money they want from the banks. I have known many people who have failed in this way. But do good borrowers fail to get loans? I fancy good borrowers can usually get what they want, and I see no reason why Government or any Enquiry Committee should worry themselves about bad borrowers to whom the banks will not give advances. Something might perhaps be done if the personal law of some of the races of India could be altered. In this province, until recently, there was a system whereby the Burmese Buddhist husband and wife had to be regarded as joint owners of all property in every way. As one-

member of the bar once put it to me "if I go to the bank and borrow Rs. 1,000 and sign a pronote for it, I am liable to the bank for Rs. 1,000, but as soon as I take the money, it becomes jointly acquired property of myself and my wife, and Rs. 500 of it belongs to her". The result was that if the Rs. 1,000 were invested in buying a house, and afterwards the bank got a decree against the borrower for Rs. 1,000 and sought to enforce it by attaching the house, the wife would come forward and claim a half share in the house, and she would get it too. In my own experience the Bank of Bengal at Akyab about the period 1916-18 lost any amount that way. They had taken the husband's signatures on bills and when they filed suits on the bills after they had been dishonoured and attached the property of the borrowers, the wives came forward and claimed a half interest in the property attached. If the Committee could get the history of the Bank of Bengal's litigation at Akyab about that time they might find something instructive. No wonder that the banks fought shy of lending to Burmans. The only way was to get the wife to come and sign all documents with her husband, and then there was always the possibility of there being another wife, or of the lady who attended not being the chief wife. The difficulty has been somewhat obviated of late years by the Rangoon High Court's ruling in what is known as the Ma Paing's case, but the full repercussions of that case have not, as yet, been fully worked out. Shortly, the effect of that case is that when the husband has borrowed for the purpose of legitimate business, the wife's half share in the joint property is liable for the money borrowed by the husband alone, but I do not think that the banks have as yet entirely got over their reluctance to lend to Burmese Buddhists.

I believe that there is sometimes a similar difficulty about Hindu borrowers. If a Hindu borrows on the security of his joint family property and the money is not borrowed for purposes of necessity, or is borrowed for any purpose tinged with "immorality", a somewhat wide and elastic term, the other members of the family can recover the security as against the lender.

Another difficulty that the banks have, came up in a case that went to the Privy Council as the Bank of Bengal v. U Re Gyaw Thu & Co. It resulted in a judgment that cramped the style of the banks very much in making advances against title deeds deposited with them. The principle involved was as follows. X deposits title deeds of immoveable property with the bank for his seasonal advances for, say, the paddy trade. His liabilities at the end of the season are greatly reduced, or, perhaps, paid off entirely, but the title deeds remain with the bank in anticipation of the next season. When the advances are nil, or some comparatively small figure, the owner of the property executes a registered mortgage deed of the property in favour of Y. Next season the bank advances once more on the security of these same title deeds which had never left their possession, and which were entirely unencumbered when they were made over to them. At the end of the season the advances are not paid off, and the bank seeks to realise its security. It will find that the registered mortgage has priority over it.

Mortgages by deposit are only valid in certain towns, *vide* the Transfer of Property Act. An amendment of the Act might perhaps facilitate the getting of advances by some persons, for, naturally, after this Privy Council decision some of the banks began to fight shy of taking title deeds as security.

As regards restrictions on banking business, as exemplified by the Annexure at the end of the questionnaire, it would be interesting to know how far the things forbidden in Part II are really enforced. The proviso against loans on mortgage used, to my personal knowledge, to be evaded by certain branches of the Bank of Bengal by getting any name for a second name on a three months pronote, and then accepting deposit of title deeds as a nominal "collateral" security, whereas it was, as a matter of fact, the principal and only security. The necessity for two names, I understand, is what brought into existence the thoroughly vicious system of having "managing agents", in order that when a business required a second name to sign on its notes, the managing agents could do so, the two signatures often being written by the same man with the same pen at the same time.

I would be very strongly averse to seeing banks in India taking to themselves the position of banks in Germany and taking a lead in the promotion of business and getting a large proportion of their deposits invested in business. Such work should be undertaken by moneylenders or financing houses out of their own capital and money, they can raise on long term loans on their own credit. I would suggest that legislation on certain lines, some of which I have indicated, might enable some honest borrowers, to become good borrowers from the banker's point of view, and thereby enable them to get advances such as they require. I would leave all others to moneylenders. They are the people who may indulge in the perfectly legitimate speculation of taking risks in return for a high rate of interest such as banks do not, and have no right to, charge or expect. Being mostly smaller men, or at any rate having smaller men as their agents in the bazaar, they can watch their borrowers more closely in a way in which the banks cannot watch them. It is no part of the business of a bank to compete with the small moneylender. The Bank of Bengal did that in Akyab at the period I have indicated earlier in my note, and the result cost them several lakhs.

Safety first is the motto for banks, and combined with that must be honesty, which has not, I fear, always been as present as it might be in some of the banks that have failed. With that strictly in view all the time, the confidence of the public will be increased and capital will, in time, find its way into banking deposits, and the banking habit, with the attending financial advantage to the country will increase.

No. 23.

Statement of evidence submitted by M. R. Ry. AL. SP. PL. Subramaniam Chettiar Avergal, Devakotta.

I.—Industrial Banks and credit facilities for India's main industries.

1. The credit facilities, required with special reference to fixed capital expenditure or block and current requirements or floating capital, afforded by banks like the Imperial Bank of India to the Indian industries are *nil.*

3. The rates of interest, which are charged at present by banks and co-operative credit societies, including fines and penalties on securities, range from 5 to 12 per cent. and on loans and advances from 9 to 15 per cent.

4. There is no scope for the development of industries owing to lack of credit facilities

The present banking rules and other business methods do not afford any help to the business men in times of need. Trade banks may be opened on these lines.

The indigenous banks of India advance loans, whether great or small, to the agriculturists at any time, in proportion to the credit they command, and to the traders and men engaged in industries, on the basis of the trade or industries, and to others on the basis of their property, and afford facilities for them to repay the loans conveniently.

The amounts so advanced by these banks are in excess of those advanced by other registered banks.

The average rate of interest charged by these banks does in no way exceed 15 per cent. Interest on the borrowed capital is paid at 11 per cent. and the balance of 4 per cent. defrays the cost of establishment, bad debts, etc.

As these banks do not enjoy the benefits of Government help like the co-operative credit societies and realise the loan without much difficulty and expense without going to the Court, they are not progressing but on the other hand decaying. Banks like these should be started in each province, important towns and villages, strongly supported by Government.

It is highly desirable that legislation should be passed to ensure the easy payment of the capital and interest by the debtors without any fraud and without dragging the $\frac{\text{lenders}}{\text{creditors}}$ to the Court to realise the amount.

III.—Regulation of Banking.

1. I am in favour of audit and examination of accounts of banks supported by Government examiners. These examiners are to be elected by a majority of votes; in the case of limited banks by the directors, and in the case of unlimited banks by a body of bankers not less than five in number.

They have to audit and examine the bank accounts according to the business methods and system of accounts of the particular bank. They must be men qualified to audit the accounts, preferably one certified so. Their cost is to be met by the respective banks or firm in proportion to the account work done by them.

2. Loans ought to be given to persons on the collateral security of their immovable property situated outside the city, *i.e.*, in the mofussil without full stamp value both in current and thavanai accounts.

3. Regarding additional provisions for special application to (*a*) a private firm in India doing banking business (*b*) a branch of a foreign firm whose head office is located outside India doing banking business in India and (*c*) a branch of a foreign company whose head office is located outside India doing banking business in India and a foreign company doing banking business in India, I suggest that the capital borrowed in India should be utilised for banking purposes in India alone, and that the money should not be sent out of India. To achieve this end it is highly desirable that it emanates from Government and is controlled by Legislature.

4. I am of opinion that co-operative credit societies should be made to receive and encash cheques, getting the usual discount like other banks.

5. I think that foreign banks should not be allowed to do banking business in India unless they receive a licence. The District Collectors should have the power to issue, renew and cancel such licenses.

6. The business methods of limited companies and joint stock companies are far from satisfactory. Such kind of treatment as is meted out to Europeans, municipalities and other departments should be shown to Indian firms, banks and other companies in the matter of advances and rate of interest.

7. The reserve fund of a bank, company or firm should on no account exceed 50 per cent. of the capital. Any amount found in excess of that should be distributed to the shareholders.

8. As detailed in para. 3 below of section V, sufficient safeguards by means of legislature are to be placed so that neither the creditor nor the debtor is subject to fraud or deceit by dealings in an unlimited way.

9. The plan for amalgamation or reconstruction instead of liquidation, in the interest of the public, is not sound I think.

10. To reduce the cost of liquidation, I think, that a committee may be formed from and among the shareholders and the depositors of the bank by a majority of votes and that the committee be empowered to liquidate.

12. Banks which are really stable should be legally protected against unjust attacks on their stability.

13. The manager of the bank is to be legally empowered to determine the cases in which such protection should be extended and to take criminal action against the person making unjust attacks.

14. The various taxes paid by banking companies are:—

(1) income-tax
(2) super-tax
(3) profession tax
(4) municipal tax
(5) revenue tax
(6) education tax
(7) duties (stamp and customs).

The payment of these exorbitant taxes go a long way off in impeding the progress of banking business and in checking the development of banks. Proportionate reduction of taxes will tend to greater facilities and betterment to the people at large.

IV.—Banking Education.

Banking, industrial, and agricultural education should be made compulsory. The present state of education in these matters is far from satisfactory. Sufficient encouragement ought to be given to those, who after finishing their course come out successful in the examination.

V.—General.

1. Defects in the organisation of banks, etc., can well be remedied by co-operation amongst bankers themselves.

2. The best way of affording protection to banks without entailing any hardship on *bona fide* customers is to determine what sort of business and to what limit should be done. This is to be determined by a majority of votes of the shareholders or the partners. This is to be enforced by means of legislation.

3. As has been pointed out in section 4, paragraph 8, I echo the voice of the people in that the interests of the creditors and debtors should be protected by ways hereunder detailed. This will ward off the difficulties, unnecessary expenditure and litigation experienced by banks, companies and firms.

(*a*) In each of the sub-registrar's offices, as per the census account, a ledger should be opened for every individual wherein are to be found the extent of his or her immovables, the amount borrowed on personal liability, on the mortgage or hypothecation of the immovables and on securities, and the amount lent to others. Discharge of any of these should also find a place in that ledger.

By this means a lender will be on his guard and able to know the real status of the would-be debtor and the scope for deceit will be cut short and his advances will be limited and in proportion to the status of the would-be debtor. Promissory notes, irrespective of the amount found therein, should be registered at a nominal fee. A charge on an estate is to be created in the order in which a valuable security is registered—whether it is a pronote or a mortgage bond or a bond for mortgage with possession or a security. Properties in existence at the time of the registration of the valuable security as well as those that come into existence afterwards are to be the charges until their discharge for the amounts borrowed.

(*b*) The present system of obtaining encumbrance certificate attended with much cost and little utility should be done away with at once. This can be replaced by a copy of the ledger mentioned in paragraph (*a*) *supra* which should be obtained for a small sum.

(*c*) As the agriculturists, men engaged in one or other of the industries and traders have to borrow constantly by mortgage, hypothecation or security and as the present stamp duty and cost of registration are abnormally high and as they are put to much loss, these should be sufficiently curtailed.

(*d*) In the matter of realisation of debts due to them, banks, companies and firms experience much delay, annoyance and unnecessary expenses, and at times both the creditor and the debtor are driven to the verge of bankruptcy owing to the existing rules, their application and the enormous amount by way of Court fees. As a consequence the banking business is decreasing.

(e) The plea of minority, benami and such other frivolous claims are set up as defences in suits on pronotes, hypothecation and security. This entails much expense, annoyance and delay to the party.

(f) During the execution stage one is confronted with a series of obstacles and hindrances in realising the decree amount, in bringing to sale the property, in bidding at the sale, and in being put in physical possession of the property delivered. The rules and orders of the Civil Procedure Code may with advantage be so modified as to give relief against all these evils.

(g) A separate Court may be established where decrees and debts covered by mortgages, hypothecation and security without being filed in the Civil Courts in the ordinary way and without Court fees, may be executed without much expense and the auction purchasers of the immovables in Court auction be put in actual possession of the aforesaid properties through the Divisional or Taluq Magistrates.

(h) The entire amount borrowed by the managing member of a joint Hindu family should be deemed one borrowed for the family and hence should be recoverable from the joint family property. The plea of minority, illegal or immoral consideration should not be set up as a defence.

(i) If the borrower, on executing a valuable security, does not receive the amount specified therein, or if the lender does not give the valuable security made in his favour, the borrower should take steps to cancel the valuable security and should not in an action on those valuable securities set up the defence of failure of consideration.

In addition to these I fully endorse the views expressed by the Madras Nattukottai Nagarathars Association in their report made to the Madras Provincial Banking Enquiry Committee.

No. 24.

Statement of evidence submitted by D. D. Kapur, Esquire, of Dewan Chand and Sons, Bankers, Amritsar.

II.—Financing of Foreign Trade.

I have personal experience of foreign piecegoods import trade.

The banks offer facilities to the extent of 60/70 per cent. The balance is supplied by the importers.

The foreign piecegoods for the Amritsar market are shipped to Karachi port and the relative shipping documents (draft, relative invoices, bills of lading and insurance policies) are sent by the shipper to a local exchange bank for collection. The importing firms have generally loan arrangements with some local banks who clear the goods from the port on behalf of the importers and have them forwarded to Amritsar on receiving a margin of 30 to 40 per cent. from them and store the goods in their godowns. The interest on the money thus advanced is charged at the current Imperial Pank Rate with a minimum of 7 per cent. and godown rent per package is annas four per week or part of a week. It comes to rupees thirteen a year per package.

In Amritsar the National Bank of India, Limited, the Chartered Bank of India, Australia and China and the Allahabad Bank, Limited, have formed themselves into a 'trio of Associated banks'. They are governed by set rules which are generally not helpful to the best interests of the importers. The average price of a cotton piecegoods package is about Rs. 450. With 7 per cent. interest minimum and Rs. 13 godown rent per year per package of about Rs. 450, the bank charges under both the headings come to 10 per cent., a year. The 3 banks mentioned above are the biggest exchange banks in Amritsar and having formed themselves into a trio of associated banks there is no competition between them. They have thus the uppermost hand.

In Amritsar the National Bank of India, Limited, the Chartered Bank of India, Australia and China, and the Allahabad Bank, Limited, only sell exchange and as these three banks command the market their exchange policy is most unsatisfactory from the view point of an importer. In the matter of B. C. rate there is sometimes a difference of 1/16 or more between the rate fixed by them and that ruling at Bombay on the same day. Nobody can question their authority for a low rate and even if it is pointed out to them, it falls on deaf ears.

In the case of forward booking they are supposed to give Bombay rate but here also they try to swallow as much as possible. Instances can be given when the rate of associated banks in Amritsar is 1/16 less than the forward exchange rate actually ruling in Bombay at the same time.

Defying fair competition the associated banks in Amritsar do not accept at par drafts on London on other banks in payment of drafts issued by the shippers. They charge 1/32 in exchange, *i.e.*, discount such drafts at about 3/16 per cent. less, or sometimes ¼ per cent. less.

The weak firms in Amritsar have great difficulties in securing any facilities from the banks.

There should be a uniform rate of 6 per cent. interest and godown rent should not be more than Rs. 0-2-0 per week per package with a maximum of Rs. 0-8-0 a month. Moreover, the banks should advance not less than

75 per cent. The prices have come down to such a low level that there is absolutely no risk to the banks at this figure.

A great difficulty is experienced by people dealing in Indian mill made cloth. Nearly all the banks refuse to give the same facilities as for foreign piecegoods. They take shelter under a stereotyped phrase 'Goods of First Class Mills'. It lies with the banks to classify the mills. Even if some facilities are granted by the banks, their treatment in the matter is that of a stepmother.

The credit instruments in use in the foreign trade are bills of lading and railway receipts. The banks as stated above advance about 60/70 per cent.

In the case of the associated banks their rate of interest never goes below 7 per cent. It may go up as the Imperial Bank Rate is higher than 7 per cent. But in the case of Imperial Bank their Rate is low during April/September and up during October/March.

Since the fixation of exchange at 1/6 a rupee India's export trade has suffered terribly. It has indeed helped the dumping of the foreign goods into her markets but on the other hand the Indian exporter or to be more appropriate the Indian cultivator has been very hardly hit. He gets 16 annas for every 18 pence goods he sends to other countries. While his competitors are getting their full money back owing to well balanced exchange of their countries, the Indian exporter gets 12½ per cent. less. To get full value for his goods the exchange should either be ¼ or he should sell at 12½ per cent. more, which is quite impossible. But goods have to be sold and to meet competition the Indian exporter has to cut down his price by 12½ per cent. If he does not do so, he must be beaten in competition and turned out of the markets. It is actually the case with the resultant consequence that India to-day is in the throes of economic revolution. The prices of her commodities have decreased so far that the agriculturists are feeling the pinch of it. Their buying power is curtailed. Unless the exchange is brought down to ¼ India can never and will never economically prosper.

The establishment of bonded warehouses is in itself good, provided they are run on easy lines. Majority of Indian merchants are ignorant of the English language and care should be taken so that they are not subject to unnecessary trouble. I would personally recommend these bonded warehouses. It would not only cultivate healthy competition but will also open the eyes of those banks who show utter lack of sympathy to their constituents by charging Rs. 13 a year per package.

The port trust warehousing charges are exorbitant and should be made as low as possible. I have known of cases where charges at the Calcutta port have swallowed the major portion of the importer's commission.

It is on very rare occasions that banks release goods on Trust receipts and only when their own money is not involved. It is under the instructions of shippers.

The pity of the whole situation is that Indian banks who wish to help their country's industries have little money to give proper facilities, while foreign banks with large funds are unsympathetic in their dealings. The best remedy under the circumstances is that foreign banks should not be allowed to do banking business in India otherwise, than under a license with a clear term in it that they are to help the Indian industries. If they refuse or do otherwise, their license should be cancelled.

III.—Regulation of Banking.

Foreign banks should not be allowed to do banking business in India without first obtaining a license from a Board to be appointed for this purpose by the Indian Legislature. It should include majority of Indians on it. The primary duty of such banks should be to give as much facilities as possible to the Indian industries, trade and commerce. The Indian deposits must remain in India and devoted for the promotion of Indian interests. The licence of any foreign bank working in contravention of the above should be cancelled.

In case of any bank going into liquidation its assets and liabilities should be scrutinized by an auditor appointed by the above mentioned Board and if a satisfactory report is made by the auditor, partial payment should be made to the depositors to the extent of safety margin as in the case of the late Alliance Bank. The money to be so paid should be supplied by the Imperial Bank.

The main cause that led to failures of banks in the past was the false rumours spread by the enemies of banks, in season and out of season, with the consequence that the depositors became panic stricken and made a rush to the bank to withdraw their deposits. As the banks could not meet the heavy withdrawals they had to stop payment notwithstanding the fact that the banks were not in loss and their position was quite satisfactory. They could meet the liabilities in full in regular course.

In such cases the Board should have the power to examine the assets and liabilities of the bank and if the bank's position is found to be sound the maligner of the bank should be prosecuted and deterrent punishment awarded. If, however, the bank's position is found unsatisfactory, the Board should order compulsory winding up of the bank or sympathetically consider over its plan for amalgamation or reconstruction. In the former case immediate orders, to wind up the business of the banks, should be passed to avoid further complications.

In case of rush at any bank the Imperial Bank should advance money on the security of assets of the bank. And they should have the first lien to the extent of money so advanced.

IV.—Banking Education.

There are no facilities for banking education in schools, colleges and Universities in India. In certain provinces there are commercial colleges where there are no arrangements for exclusive banking education but multiplicity of subjects are taught including a few books on banking.

There is no co-ordination of efforts between such institutions and banks.

The banks do not provide any facilities for training of boys in banking business. Even educated youngmen are not allowed to work as apprentices.

Where there is a commercial college the boys, in order to get practical experience in banking, should be allowed to work casually in some local banks. In this way the boys would have both theoretical and practical training and will thus have better prospects in the banking line.

It will be to the best interests of Indian youths if there be started an up to date Central Banking College in India, say at Delhi, where all branches of banking are taught. At present they have to go to England

and foreign countries for such education. The graduates of this college should have the same prospects as those of foreign Universities.

I.—Industrial Banks and credit facilities for India's main industries.

The industries that have come under my observation are 'sugar' and 'cotton piece-goods'.

The capital or machinery and building is generally found by the promoters themselves.

They have to borrow money from the banks or bankers on the security of their block and stock.

Big joint stock companies with large capital, well organised and run on sound and efficient basis, can readily raise necessary funds. In their case the banks are too glad to advance money. But for small industries where assistance is really needed banks show total indifference. Foreign banks have no sympathy for these industries while Indian banks have little funds at their disposal.

The different methods of financing are.—

1. Advances against mortgage of property.
2. Cash credits against property and stock.

In imports, it is the buyer who finds money. The banks advance money against shipping documents to the extent of 60/70 per cent. of the invoice value of the goods. The interest charged is the Imperial Bank Rate with a minimum of 7 per cent.

In exports, it is the seller who finds money. The banks advance money against invoices, railway receipts or bills of lading with drafts or Consular advices.

The letters of guarantee or credits are opened in some cases by the importers in favour of foreign shippers through some exchange banks.

The exchange banks advance money to the Indian exporter against R/R or bill of lading and Consular advice to the extent of 70/75 per cent., or in some cases more also, of the value of the goods according to the position of the merchant. But if foreign buyers open credits in favour of Indian exporters, the latter are paid full invoice value of the goods.

Generally banks do not advance money against R/R unless the same is accompanied by a Consular certificate. To avoid this difficulty the local Chamber of Commerce or any other authority such as Notary Public should be authorised by law to examine and certify such exports. The interest on such advances ranges from 7 to 9 per cent. As the interest charged is high the industries suffer.

As reasonable facilities are not forthcoming the manufacturers have to work on very small margin to keep the industries running.

Industrial banks should be established for the promotion of industries which may give due facilities such as advances on a free scale but compatible with safety and at low rate of interest. The existing banks are unsympathetic and more should not be expected from them unless their business is regulated and pressure brought upon them to help the Indian industries.

If industrial banks are established, they should have Government funds at their disposal for the promotion of industries. Industrial borrowings may have special legislation to avoid lengthy proceedings in Court.

No. 25.

Statement of evidence submitted by Rai Bahadur Bansidhar Dhandhania, M. L. C., Banker and Zemindar, Bhagalpur City.

I.—Industrial Banks and credit facilities for India's main industries.

Q. 1.—That credit facilities are required both with reference to fixed capital expenditure and floating capital is out of question, for unless these facilities be afforded it would be impossible to start any industry, specially in this country, where the people are proverbially poor. At present their requirements are met either (*i*) by the person starting the industry, (*ii*) by combination of persons interested in the said industry, or (*iii*) with the help, in rare cases, of Government in taking the machinery on hire purchase system, under the Industries Act, or by the joint stock banks or indigenous bankers on credit system such as khata peta. These are the main sources which help at present the financing of any industry, at least so far as the Indians are concerned. It is apparent that these resources are very limited and do not afford that facility for the starting or development of any industry which is afforded to persons in such situation in foreign countries. The resources of individuals are always limited and private firms do not generally venture to advance money for the furthering of any new industry unless its success is manifested, and the joint stock banks are also not willing to give money without taking the security of the stock in trade. So any aspirant for new industry is handicapped, at the outset, for want of credit facilities for starting new industries in this country. I have observed many brilliant young men with high academic distinction of foreign countries in banking and industries being thrown out of employment for want of credit facilities; in spite of their utmost efforts they could not succeed in starting new industries or in getting suitable jobs in any industrial concern and thereby prevented from giving their country the advantage of their high education acquired abroad.

I am of opinion that the Imperial Bank and other joint stock banks have miserably failed to help, much less foster and promote, Indian industries, inland trade or business. By their constitution, it is difficult for these banks to support and sustain such industries as they cannot and do not advance long term loans without which no practical improvement either in trade or industry is possible and also because these banks are loath to cash hundis and bills of exchange. Unless facilities are afforded for long term loans, for cashing hundis and bills of exchange more liberally and for advancing money on personal security by the banks, they can do but pretty little help in the development of trade and industry. I think the best way of solving this problem is for Government to help the Mahajans, and the indigenous bankers who with their knowledge of the local trade and industries are more capable of and do generally help such industries and trade with loans on personal credit and on such securities as other banks, due to their inadequate knowledge of the people and securities, consider precarious, by handing over to some of the approved indigenous bankers the management of Government business and local Treasury balances and affording liberal credit facilities from the State bank on one signature as is done in Scotland, Canada and other countries.

Q. 3.—In public banks, such as the Imperial Bank and the like, the rate of interest varies from 7 to 9 per cent., and the private bankers and shroffs generally charge at the rate of 9 per cent., but in some special cases, they charge at the rate of 6/12 per cent. or 7/8 per cent when they are satisfied that the borrower is a reliable man. The higher rates charged by these indigenous bankers are due to their advancing money on personal credit and securities which other banks consider perilous and also due to want of facilities for realisation of their loans which other banks enjoy.

I have already indicated above the difficulties that are experienced in starting industries on account of lack of credit facilities. The high rates of interest are obstacles to the starting of any new industry and the Indians generally not having the advantage of getting money from joint stock banks with facility, are obliced to fall back upon private banks and firms who generally charge interest at a higher rate and so they are handicapped at the very outset in getting full advantage of the industry. But even these banks and firms do generally advance money at the rate of 9 per cent,, if they get stable security for the money so advanced by them.

Q. 4.—The causes for which banks do not advance money freely in this country generally are as follows:—

(*i*) The banks, being generally in hands of foreigners, do not encourage the Indians in star'ing new industries, with the same spirit as they do their own countrymen.

(*ii*) Bankers generally look with suspicion upon those Indians who aspire to engage themselves in trade and commerce.

(*iii*) Indians do not find such free access to and facilities from these banks as the foreigners do.

(*iv*) The bankers suspect Indians of their inaptitude for any trade or industry, and

(*v*) They being foreigners, have not that amount of knowledge of the country and the people to appreciate the difficulties as well as the motives of Indians.

So far as the indigenous bankers are concerned, their resources being generally limited, they do not venture to advance money on the basis of prospective industry which may or may not be successful in the end. Moreover, these bankers have not the same facilities for enforcing their remedies in realising money as the other public bankers have. They generally fight shy of advancing loans for starting industries.

I do not think that proper and substantial financing of industry is possible by the present method. I would suggest the establishment of a new machinery for advancing loans and financing the industry. I am strongly in favour of Trade Banks which specialise in dealing with special trade.

I am in favour of the establishment of industrial banks in each province which would afford special facilities to Indians in obtaining loan for financing new industries. The constitution of such banks should be such as to command the confidence of the Indian industrialists and traders to the fullest extent and to which the Indians might have free access and which they might regard as their own. To meet these objects it would be desirable that these banks should be under the supervision and control of Government, subject to the condition that the Governors of such banks should

be Indians who should be assisted by a committee of experienced industrialists and traders of different parts of the province. These banks should be subsidised by Government which would command the fullest confidence of the people.

I would suggest some restrictions on the grant of loan by such a bank while providing finances for industries as follows :—

(i) The banks must be satisfied that the applicant is really serious in starting the industry and has the necessary experience and other qualifications for the same or is a substantial capitalist.

(ii) Applications for loans to be entertained only after 50 per cent. of the required capital of the company is subscribed by the public, and in case of individual, the person should show a reasonable capital in his hand for starting the industry.

(iii) Whatever money the applicant might have arranged for for starting the industry should be deposited with the bank.

(iv) The machinery and other accessories should be purchased under the supervision of the bank who would pay the price directly, and all financial transactions in respect of starting the proposed industry should be advanced by the bank, on the security of the machinery and buildings, site and stock in trade of the proposed industry.

(v) Not more than 15 per cent. of its paid-up capital has to be invested in a particular industry.

(vi) In case of going industries, the bank may advance money according to its own limit against the valuation of its stock in trade and machinery, etc.

III.—Regulation of Banking.

Q. 1.—I am in favour of audit and examination of banks' accounts by examiners which should be confined to the Imperial and other joint stock banks and also such indigenous banks willing to have the same status and facilities as afforded to other banks. The examiners should be appointed by a body independent of these banks, either by the Government of India in consultation with the Finance Department or by the Legislative Assembly. Their duties should be to examine the entire account of the bank both with regard to its assets and liabilities, investments, the amount in current or fixed deposits and other matters connected with such deposits and the results of these examinations should be published in Government Gazettes. The cost of these examinations should be met by the banks or partly by the banks and partly by Government. As to qualifications of the examiners, they must have the highest academic degrees in accountancy, banking and commerce and must have considerable practical experience of banking system.

Q. 3—(*b* and *c*)—These firms and companies should be required to deposit sufficient security with the Government of India before they are permitted to establish their firms in this country, and the security should be proportionate to the amount of transactions done by them in India to be determined by the examiners and auditors of bank appointed by Government.

Q. 4.—**Yes.**

Q. 5.—Yes. The power to issue such license should be vested with the Government of India in consultation with the Finance Committee of the Legislative Assembly.

Q. 6.—Yes.

Q. 8.—The principal causes for the failure of banks in India appear to me to be as follows:—

(*a*) Lack of proper and efficient management and supervision.

(*b*) Speculative investments.

(*c*) Inability of banks to increase their lending power to meet seasonal or unusual demands.

(*d*) Realisations of money are not speedy in cases when they take relief from the Court.

(*e*) Absence of media between banks for mutual co-operation and joint action in time of crisis.

(*f*) Frequent fluctuations in the Bank Rate.

(*g*) Marked disparity between the Bank Rate and the money market rate.

(*h*) Want of a Central or State Bank serving as a reservoir of credit to which such banks could look for succour in time of crisis.

Q. 9.—I am in favour that the liquidation proceedings should not be enforced at the outset but every attempt should be made to give opportunities for exploring all possible avenues for arranging a scheme for the amalgamation or reconstruction of the bank. As for example, a Committee of financial experts, both officials and non-officials may be appointed to ascertain the assets and liabilities of the bank affected and also to ascertain to what extent public assistance may be useful in restoring the bank. If the liabilities of the bank be not of such a nature as to be almost hopeless, then the Committee should propose means inclusive of Government help on such terms and conditions as the Committee may propose. If the affairs of the bank are almost hopeless, then of course it may be forced to go into liquidation.

Q. 12.—I have no suggestions to make with regard to the proposal to legally protect from unjust attacks those banks which are really stable. This would unnecessarily lead to litigation or prosecution without bringing any advantage to the banks concerned.

Q. 13.—Special concessions should be given to co-operative banks, for these banks generally deal with poor agriculturists. At present these banks advance money at a very high rate of interest varying from 1/4 to 1/8 which is really hard for the poor agriculturists and in no way different from the rate which is generally charged by the money-lenders. If some concessions are given to these banks, then it is possible that they may be in a position to advance money at a lower rate of interest.

IV.—Banking Education.

Q. 1.—At present sufficient facilities for education and training in banking are not afforded by the schools and colleges and Universities in India, nor is there any co-ordination of efforts and co-operation between such institutions and the banks.

Q. 2.—The banks provide facilities only to those probationers whom they select for employment in their office.

Q. 4.—Facilities should be afforded in India in the matter of banking education in the following ways :—

(*a*) Special institutions such as colleges of commerce may be established in important commercial centres like Calcutta, Bombay etc., for imparting education in banking and commerce.

(*b*) In other Provincial centres or important places of trade and business, institutions may be started, not in the nature of colleges as indicated above but of a lower grade to impart such education.

(*c*) The banks and their branches may be influenced to admit a limited number of graduates as apprentices to receive practical training in commerce and banking.

Q. 7.—From the early boyhood, after completing the primary education, these bankers allow their boys to write their accounts and as they grow in years they discharge a portion of these duties which are generally discharged by their father and guardian under their guidance. In course of time the full responsibility of the management of the banking business is left to their care. Apart from this training no education is given to them in any school or college. In primary and secondary schools, a definite optional course may be prescribed in which the sons of the indigenous bankers may receive a thorough training in banking through the medium of the varnacular of the district. I would also suggest that some facilities may be afforded to indigenous bankers for perfecting the training of their wards in the Imperial and other banks.

Q. 8.—At present the only prospect of such trained boys is that they can secure appointments in banks.

The slow development of banking in India is due not only to the absence of trained men but also due to the fact that the people have not yet got much confidence in banks because of the failure of some of the important banks and also due to the general ignorance of the people regarding the utility of banks.

V.—General Banking Organisation

Q. 2.—It is indisputable that better business is followed by better farming and better industry which produces better living. And India being a country pre-eminently agricultural and four-fifths of its population being dependent directly or indirectly upon agriculture which is practically its basic industry, any advance of banking system in this country with its peculiar conditions and needs is bound to be delusive and futile if it fails to take into account the indigenous banking organisations which exercise such a vast and deep rooted influence over the country's finance and trade. It should be, to my mind, the duty of the Indian Central Banking Enquiry Committee to endeavour to evolve ways and means to develop and improve the indigenous banking. One of the ways of doing so is by establishing greater co-operation between these indigenous banks and the joint stock banks, and this can be brought about by giving these indigenous bankers the status and facilities of joint stock banks and should be recognised by the Reserve Bank, and these joint stock banks should discount hundis through parties dealing directly with approved indigenous banks and afford liberal credit facilities to approved indigenous banks on one signature.

Facilities should also be afforded to the indigenous bankers to get financial help from the Imperial Bank or other Government banks which may be established in the near future in the time of a crisis. In order to avail of this opportunity the indigenous banks may be required to get their accounts examined and audited by Government examiners. The management of Government business, Treasury balances, and currency chest should be handed over to local approved and sound indigenous bankers on taking security from them who may be required to submit periodically audited accounts at stated intervals.

Q. 2.—Greater co-operation between indigenous banks and other banks is absolutely necessary for the development of trade and industry. To ensure prompt payments as well as the safety of the capital advanced by the bank, the bank may take as security the house property and immovable properties as well as the bonds and hand notes executed by the customer from the indigenous banks.

Q. 8.—The reasons which prevent more capital being invested in the expansion of the existing banks or the establishment of new banks are as follows :—

(*a*) The people in general have not yet got much confidence in banking system and this confidence has been much shaken by the failure of some of the important banks in recent years, *e.g.*, the Alliance Bank and the National Bank, etc.

(*b*) General poverty of the people who cannot make enough saving to invest in banks.

(*c*) Circulation by Government of Postal Certificates and Postal Savings Banks and Treasury bills which withdraw large amount of local floating money.

(*d*) Unwillingness of Government to deal with such banks does not rouse confidence of the people in private banks.

Q. 15.—I think the Imperial Bank of India has in this Province (B. & O.), been of very little service so far as the questions (*a*) to (*d*) are concerned.

No. 26.

Statement of evidence submitted by Messrs. P. R. Srinivas, M.A., Editor and C. S. Rangaswami, Managing Editor, "Indian Finance", Calcutta.

To say that India is backward in banking were a platitude of platitudes; and to talk of the Indian banking system were a misnomer. The plain fact of the matter is that, though it is true that there are many banks, indigenous and otherwise, transacting business in India, they have grown and developed somehow, anyhow. There has been no law or scientific principle, no plan or well-thought-out design. The first few foreign entrants into the Indian banking world commanded a good business in respect of our foreign trade, were assured of a satisfactory margin of profits on the large turnover and reaped, year by year, a sumptuous harvest; the succulent profits made, and improving dividends declared, by the Eastern exchange banks made the mouths of many another exchange bank "water," with the result that where there was business for six, there are now thrice the number, that with trade at a stand-still, the many scramble for the little that is offering; and that the good, old days of large margins are now beyond recall. The few Indian joint stock banks, started towards the close of the last century and in the beginning of this, experienced in the post-War boom period, unprecedented prosperity—with deposits on the increase, profits so large as to enable larger dividend distribution, and prospects so bright as to enable some of them to issue new shares at good premiums; and this proved to be the signal for the flotation of a goodly number of commercial banks, of varying sizes and of different shades of respectability and association—so large was the crop that a few went to the wall because they could not carry on, a few went into liquidation because the directors were honest enough to realise that it was no use carrying on, and a handful are still in the land of the living, but half-dead, half-alive in a condition of "lingering perdition worse than death". The Tata Industrial Bank of India, for reasons which baffle understanding and defy analysis, had the fortune—or, was it not, misfortune—to have its shares, on which Rs. 7½ was paid-up, pushed to the giddy heights of Rs. 70, Rs. 80, Rs. 90, and even Rs. 100 premium; and *ergo* industrial banks became the fashion of the day and the vogue of the times—and, for sometime, one heard nothing but of industrial banks, which made their *debut* in the North and South, the East and West; few of them could be described as banks, and none as "industrial".

All the while, Government never for a moment realised that they had aught of duty to the country's banking development; and felt altogether happy and satisfied with themselves, once they had merged the three Presidency Banks into the Imperial Bank of India. Private enterprise had all the field to itself—there was no friend, philosopher or guide to let it shape itself on proper lines—nor was there any real check or scrutiny or fear of law to keep it on right lines. There has been no attempt so far to study the banking problem of the country as a whole. An aspect here, and an aspect there has received attention; but it was never realised that the types of banks and the forms of banking services required in the case of any country aspiring to take its place in the modern economic and industrial organisation of the world should be varied and comprehensive and that.

amongst such different species of banks, a measure of cohesion, co-ordination, reciprocity and strength which comes of union should also be possible through the instrumentality of a Central Bank.

We make a deliberate statement that neither Government nor leaders of opinion in the country, nor even those actually engaged in, or connected with, the banking institutions ever gave serious attention or constructive thought to the question of a national autonomous banking system. In its very early years, the Indian National Congress adopted *Swadeshi* as an important factor in its creed. Encouragement of domestic industries and manufactures was recognised as one of the fundamentals of national progress. But the Congress—nor, for the matter of that, political India—has ever failed to appreciate that if there can be no political autonomy without economic autonomy, there can be no economic autonomy either, unless there was banking autonomy. That *Swadeshi* should pertain not only to industries but also to banking; insurance and shipping was always overlooked. If such of the Indian joint stock banks as have afforded ample proof of care, prudence and skill in management have received that measure of support from the Indian public, which one must expect from a growing devotion to the gospel of *Swadeshi*, they would to-day have a far more resplendent record than they are able to show.

So far as the Indian politicians are concerned, as is perhaps true of politicians of every clime, their grasp of economic questions has never been so keen as their zeal for pure and simple political issues. It, therefore, happened that those in charge of Indian banking concerns could never get sympathy from political leaders unless they could so present their case as to give it a political complexion. If questions connected with banking have at all come for public attention, it is only when they have a political bias, like Indianisation of staff, or racial discrimination in credit policy. But the higher and fuller implications of the banking problem never secured their interest as, perhaps, they could never come within the orbit of their understanding and experience.

While it is easy to understand the lack of interest on the part of the politicians in the problem of national banking autonomy, the attitude of the Government and their apathy towards banking questions would appear unintelligible. A good many of the difficulties connected with the financial and currency problems of the country could have been solved long ago, had India but had a well-developed organisation of banking. The currency ills of the country are, in essence, and at bottom, due to the inefficiency and inadequacy of banking organisation. The hoarding habit, which has come to tantalise, puzzle and even exasperate the whole world, could have been eradicated by only one remedy—the remedy of a network of confidence-inspiring banks throughout the country, which could draw out all the savings, current and old, growing and frozen, in the form of bank deposits or other instruments of investment. The Finance Member of India, for successive generations, has been finding his "job" a bed of thorns while many of his colleagues have found theirs one of roses. Had India been blessed in the long ago with a Finance Member imbued with the vision and understanding to realise the fundamental connection between banking and the country's monetary and financial system, present-day Finance Members would not be passing through the trials and travails which are their lot.

Yet, Government have really no excuse for shelving this all-important question. Times without number, they were asked to give a serious

thought to the banking problem and undertake a survey of the banking field. Stubbornly they refused to think; and every new appeal or request or recommendation or resolution or demand for an enquiry into banking met the fate of the old. The Chamberlain Commission urged the appointment of a committee to study certain questions connected with banking. The Industrial Commission made also recommendations of a like nature. The Hon. Mr. (now Sir) B. N. Sarma moved a resolution in the old Legislative Council urging the appointment of a banking committee. The External Capital Committee, of which the then Finance Member was himself a member, put forward the specific recommendation that "India possesses a vast store of dormant capital awaiting development, and in order to make this available for investment, facilities must be increased and extended. We would emphasise the importance of a co-ordinated survey being undertaken at the earliest opportunity of the whole field of banking in India." The Federation of Indian Chambers of Commerce made this subject a hardy annual. Mr. S. N. Haji, Member of the Indian Legislative Assembly, was the sponsor of a resolution which was carried by a majority. On some plea or other, Government refused to give effect to a demand made, time after time, from all sections of public opinion and from authoritative quarters. One is left wondering whether Government's refusal to inaugurate a banking enquiry in the last two decades, in spite of repeated demands, was due to ignorance or unreasoning obstinacy.

We may not go so far as to say that the Finance Members of those times were oblivious of the obvious connection between national banking and national finance; but we are sure that everyone will agree that to Sir Basil Blackett, the late Finance Member of India, belongs the credit of having focussed public attention on this issue in a forcible and compelling manner. His famous speech at the Delhi University was the starting point of a newer, larger, more widespread and more knowledge-seeking interest in this vital question. By the same token, to Sir George Schuster belongs the credit of appreciating the true significance and value of the public interest that has thus been stirred up and of inaugurating the banking committees so as to allow this larger public interest to crystallise itself in the shape of definite and concrete reforms for the growth and development of what may be called "National Banking Autonomy" for India. It is no small service to the country—and India must feel profoundly grateful for it—that while Finance Member after Finance Member had turned a deaf ear to a universally expressed desire for a banking enquiry, Sir George Schuster evinced such responsiveness to public opinion that he deemed the appointment of the banking committees as the first and foremost task in his regime.

There may be differences of opinion as to the plan and methods of the enquiry, as decided upon by him. In fact, *Indian Finance* was amongst those who took the view that the banking investigation planned out by the Finance Member was cumbrous, unwieldy, not altogether calculated to produce definite or quick results, and apt to lead only to verbose reports and vapid recommendations. There are a few others, who also hold a similar view; but there are, at the same time, many who are firmly persuaded that the importance given to the provincial committees, the kind of investigations entrusted to them, and the detailed and exhaustive manner in which those investigations are being conducted are features which are not only so admirable in themselves but stand out as a model and pattern for enquiries of a similar nature undertaken in the future.

While we still hold that a more compact committee with expert guidance from the beginning should have been able to understand and visualise the banking problem in a more correct and more authoritative manner, we will be the first to concede that Sir George Schuster has 'meant well' in the plan he adopted for the enquiry; that he is firmly and sincerely persuaded that in a far-flung country like India, this is the only method by which detailed information of varied conditions could be secured; and that as a proof of his *boná fides*, he has been keeping himself in full touch with the progress of the various provincial investigations and has taken care to make the *personnel* of the several committees preponderatingly Indian. The committees, which could not receive the full measure of our approval at the commencement, have, however, our sincerest good wishes and blessings for a complete and satisfactory fulfilment of the aims and objects they have in view.

In a memorandum, which Mr. C. S. Rangaswami prepared specially for the Finance Member on the eve of the inauguration of the banking enquiry, he thus outlined the objects of the enquiry:

"I, therefore, urge the immediate inauguration of the banking enquiry firstly and mainly because Indian currency reform can be expressed only in terms of banking reform. I can now proceed to state the other objects to be kept in view:

1. Agricultural finance must be provided to an adequate extent and in a manner which takes note of local needs and conditions.

2. Existing Indian joint stock banks must be relieved of their present handicaps and assured of a more congenial atmosphere.

3. Other forms and types of banking like the industrial banks must be inaugurated.

4. Exchange banking, which is now the monopoly of foreign banks, must be taken up by Indian banks also.

5. A Central Bank must be created as the core and centre of, the stimulus and inspiration to, Indian banking activity and so as also to represent India worthily in international banking and finance.

6. Creation of a banking *personnel* and a banking tradition in the country.

7. Adumbration of such safeguards and precautions as would ensure that the proposed banking autonomy is reared on a scientific basis and its development proceeds on scientific lines".

We believe that the problem before the banking committees is adequately expressed in the passage quoted above.

On a careful study of the central and provincial *questionnaires*, it will become clear that amongst the questions which are tackled with vigour and understanding are: (1) agricultural finance, with special reference to the co-operative movement, land mortgage banks, indigenous bankers or *shroffs*, facilities for sale of produce, etc.; (2) indigenous bankers, their contribution to the trade and economics of the country, and suggestions for linking them to its banking system; (3) co-operative movement, its actual achievement and future possibilities for expansion, extended application and more widespread utility; (4) requisite machinery for the relief of those who have to pay unduly high rates for raising loans on mortgage of property through the agency of land mortgage banks established on the principle of co-operation or joint stock limited company or a combination

of both; (5) the inauguration of industrial banks and the provision of other facilities for a quicker growth of Indian industries, (6) a careful consideration of the existing machinery connected with the finance of foreign trade; (7) the utilisation of the post office as an important factor for the mobilisation of the savings of the masses in centres remote from district and other towns; (8) the position of Indian joint stock banks; and (9) the facilities available to-day for banking education.

In regard to these questions, elsewhere in this ["Indian Finance" Banking Enquiry number] issue will be found articles specially prepared, with information up-to-date, and with definite and specific suggestions wherever possible. The co-operative movement has been discussed in two articles; and one of them examines the present position with great balance and sound judgment and should compel careful study as indicating the directions in which co-operation in India has tended to stray away from the right path or has failed to run on scientific and sound lines. The views expressed therein are the result of an intimate knowledge of the several committees appointed to enquire into provincial conditions of the co-operative movement in Burma, Central Provinces, Madras, etc., and of more or less direct experience of the conditions in the various provinces. So far as land mortgage banks are concerned—and this is a problem of very great importance, as it is anomalous that even on good security, usurious rates of interest are found necessary—detailed suggestions and a concrete plan are expounded in an article on this subject; similar suggestions and a definite scheme for industrial banking will be found in another section. The problem of inland trade, which is now financed by the Imperial Bank, the Indian joint stock banks and the indigenous *shroffs*, receives full consideration in the articles devoted to these questions. The problem of exchange banks, what they have achieved and what they have failed to achieve, has been stated without fear or favour in the course of a review, where criticisms for and against have been analysed and examined in an unbiassed and fair spirit. We trust that the exposition of the various aspects of the Indian banking problem with reference to the questions above-mentioned would prove to be of interest and of some value.

At this stage, it is useful and essential to make a survey of the present position, eloquent commentary whereon is afforded by the five charts shown under the heading *Backwardness of Indian Banking* (for publishing which, we are indebted to Mr. B. T. Thakur, Author of *Organisation of Indian Banking*, from which these charts are copied). What is the present position? A country with a population equal to a sixth of the world's total population is served by (1) the Imperial Bank, which has three head offices and about 175 branches; (2) 18 exchange banks with 90 branches in this country; (3) about 125 fair-sized Indian joint stock banks with 400 branches; and (4) 16 co-operative banks with capital and reserve of over Rs. 5 lakhs and 125 co-operative banks with capital and reserve ranging between Rs. 1 lakh and Rs. 5 lakhs. Besides these, there are a large number of primary co-operative societies. And, of course, prominent mention must be made of the so-called indigenous bankers or *shroffs* who take deposits from the public, enjoy good credit lines with the banks, and have themselves a fairly large capital of their own and who have played an important part "from time immemorial"—as the phrase goes—in the financing of inland trade in all its stages and in the affording of accommodation on mortgages or otherwise also to those not engaged in

trade. While the above-mentioned list refers to institutions, firms or persons who take deposits and also make advances, the Postal Savings Bank Department is also engaged in the banking business in the sense and to the extent that it receives deposits.

The Imperial Bank of India holds a peculiar and almost a pre-eminent place in the Indian banking world, as it is the Government's bank, a kind of Bankers' Bank and one enjoying a number of privileges, direct and indirect, as a result of this position. But it is also a commercial bank, though certain restrictions are imposed by statute upon the nature of business it can transact. These restrictions, however, are not so material nor are they of such a drastic character as the restriction in regard to exchange business in regard to which the Imperial Bank is definitely precluded from engaging in it. The Imperial Bank of India is registered under a special Act of Legislature and is a shareholders' body. The capital is Rs. 5,62,50,000, and the reserve fund now stands at Rs. 5,37,50,000. The deposits from Government, which a few years ago used to work out to an annual average of Rs. 15 crores to Rs. 20 crores, have declined owing to the Indian Treasury's low cash balances, which have been the marked feature of Government's finances in recent years. The present annual average might work out to about Rs. 7 crores. Other deposits remain roundabout Rs. 72 crores.

The Imperial Bank has pursued its branch-banking activity with vigour: and it can claim a due measure of credit as playing an important part in the stimulation of "banking habit". At the same time, it has done much to bring the resources of Government more and more into vital connection with the money market. The rate of interest on approved securities and on commodities has gone down considerably since the Imperial Bank began to extend its activities into up-country parts. It has demonstrated how an institution with far-flung branches could yet control and scrutinise and co-ordinate the working of the individual branches; and in the case of a country like India, which is rather a continent, the lesson provided by the Imperial Bank, of its ability to have intensive control over an extensive organisation, is valuable. It has proved its fitness to be deemed an efficient all-India institution. In regard to inland trade, the experience gathered, the staff trained out and the traditions created by the Imperial Bank are bound to be of great significance in the future development of all round banking activity.

The Imperial Bank has been the one institution which has come in for the largest amount of public criticism, noteworthy alike for its vehemence and frequency. Every bank, indigenous or foreign, complains about its privileged position; exchange banks, despite their large capital and reserves and their larger resources and facilities, are no less bitter on this score than the Indian joint stock banks who, without any exception, feel that the competition offered by the Imperial Bank is an unequal and unfair competition. In recent years, the wail of the Indian banks is truly piteous to hear; and where opinion is so unanimous and where the grievance is so grave, almost one of life-and-death, it is as unwise as it is dangerous to dismiss such a complaint as one emanating from interested parties or as empty or groundless. A vernacular proverb teaches us that there can be no smoke without a fire. Nor can there be so widespread a grievance either without some cause or justification.

We will be the first to acknowledge that since the appointment of Sir Osborne Smith as one of the Managing Governors of the Imperial Bank,

there has been real solicitude and great readiness to offer all reasonable help to Indian banks. But, after all is said and done, what is the amount of help which the other banks can expect from the Imperial Bank or which the Imperial Bank can extend to the Indian banks? Beyond making accommodation on Government securities on slightly more favourable rates of interest and with a few other facilities regarding availability of cash credit arrangements at selected centres, the assistance which the Imperial Bank can render to Indian joint stock banks is not material. It is, therefore, important that this question of unequal competition between the Imperial Bank, with its various privileges, its prestige and its powerful patrons, and the Indian banks which have no godfather of any kind must be carefully looked into and suitable and adequate remedies forthwith found out.

We have had opportunities of discussing this question with many of those in authority and with everyone who is placed in a position in which banking questions should be of interest to him; and the painful conclusion we have come to is that no one seems to care as to what may happen to the Indian banks. The two main ideas which, in our view, dominate the minds of those in authority are: that the Imperial Bank must be strengthened as much and as far and as long as possible and that indigenous bankers should be strengthened by every means possible. The Indian banks do not even get a peep-in in this conception of the banking needs of the country. Whatever may be our view in regard to the actual achievements or otherwise of the Indian banks and whatever may be the view of others in this regard, we have no hesitation in saying—and we feel confident that everyone will agree with us—that if the principal institutions amongst the existing Indian joint stock banks do not show greater progress than they have done, and, on the other hand, fall on evil days, no amount of banking reforms, no manner of expert and authoritative reports issued by the banking committees, could restart and rekindle in the minds of the Indian public any enthusiasm for Indian banks as such. If the Finance Member and the members of the banking committees are really earnest and sincere in their intentions to foster and develop Indian banking institutions of various types and for various objects, let them give their first and foremost attention to the revival of activity and hope, and to the enlargement of the scope and profits, of such of those Indian joint stock banks as have come to stand out as examples of the capacity and skill of Indians to start and run indigenous institutions on lines of modern banking.

We attach very great importance to this question. We have emphasised over and over again the momentous issues connected with a proper solution of the difficulties confronting Indian banks. These difficulties have grown in number and in intensity. And we are yet to know that anyone in authority has shown a due and proper appreciation of the gravity of the position. It is because we feel that in spite of reiteration, our remarks on this subject have so far remained without effect that we wish to draw pointed attention to the prospectless and hopeless future in store for Indian banks. We may conclude our remarks by saying that Sir Osborne Smith would be the one person in authority who would fully and readily agree with us in taking so serious a view of the situation in this regard.

The question of the Imperial Bank *versus* Indian joint stock banks is bound up with the future of the Imperial Bank: and the future of the latter is bound up with the decision on the proposal to have a Central

Banking Institution for this country. Neither the terms of reference announced at the time of the appointment of the banking committee, nor the central banking committee *questionnaire*, nor the deliberations that have taken place so far, lend any hope to the view that the enquiry should embrace the question of a Central Bank. Why this question was definitely kept out of the purview of the banking committee—and we are afraid that there can be no other conclusion than that this has been deliberately kept out—we are not in a position to understand.

But to return to the Imperial Bank: another complaint against the Imperial Bank is that its scheme of Indianisation is only an eye-wash; that the men at the top only pretend to have a sympathy for the scheme; and that the prospect of Indian staff officers holding high appointments in service with, as a consequence, European assistants working under them is so galling that Indian apprentices and Indian officers are subject to a number of small pin-pricks, which, though innocuous each by itself, cannot but produce a feeling of bitterness and enhance the delicacy and difficulties of Indians holding such positions. In the special article on the Imperial Bank, this charge is examined at some length; and we have been assured that the Indianisation scheme has met with a good degree of success; that those employed thereunder are going ahead without let or hindrance unless it be that they are not up to the mark or otherwise not worthy of promotion; and that there is really no difference in emoluments and in prospects for promotion between Indian staff officers and European staff officers. While gladly accepting this assurance, we would only point out to the Imperial Bank authorities that the one real service which it is in their power to render to this country is to create a band of safe, sound and competent bankers and to develop honourable and worthy traditions for them; for, it should never be forgotten that without an adequate supply of competent men, it were idle to talk of developing banking on any large scale. Viewed from this standpoint, the Imperial Bank has a great and unique opportunity and a heavy responsibility; and we should urge that it should deem it both a duty and privilege to be able to produce men who could play no mean part in the creation and growth of Indian Banking Autonomy. For our part, we would be content to judge the worth of the Imperial Bank by one, and only one, criterion; and the criterion is: has the bank produced or is it producing enough Indians competent and able to take a leading *role* in the larger and greater banking activity which the country so devoutly wishes for and to bring about which, the banking enquiry, now proceeding, has been presumably set afoot?

Next in importance to the Imperial Bank of India, come the exchange banks which are eighteen in number and whose deposits in India are round about Rs. 70 crores. It is only in the last few years that banks of countries other than England have been drawn into the Indian banking world. In earlier years, sterling banks had the entire portion of exchange business more or less to themselves; and in fact, they were much earlier in the field than Indian joint stock banks and have, therefore, been able to build up older and larger connections and command greater and wider confidence. It is for these reasons, firstly, because exchange banks hold a more or less monopolistic position in regard to all business pertaining to foreign trade and secondly, because they are able to command a goodly portion of the available deposits in the country, that Indian banks have been complaining of unequal competition from those

quarters also. It must be admitted in fairness to the exchange banks that they have no objection to Indian banks engaging themselves in exchange business and that they do not, so to say, decoy deposits by offering unduly tempting terms or otherwise. If they have a monopoly of foreign exchange, it is because they have been handling that business for a good long time and they are, by virtue of their large resources and of the ample facilities which they enjoy from their head offices for discounting and for borrowing, able to render, to their clients here, a service which others are not able to do. Moreover, they have built a considerable secret reserve in the years when exchange business provided ample profits; and they are, therefore, able to do business with an amount of courage and are able to extend their credit facilities with less reserve than would be the case with banks which are new to the work, and which cannot obviously take much of a risk in their business commitments.

The position which the exchange banks enjoy in India is analogous to what foreign insurance companies and foreign shipping companies, who were earlier entrants in their field, enjoy in their respective spheres. In regard to all these economic activities, there is a growing feeling in the country that Indian institutions should be able to take their proper place therein and that it is the duty of the Government to create conditions, which would facilitate such a desirable change. How is this readjustment to take place?—This is one of the thorniest questions which will have to be solved in the near future. We are witnessing to-day a greater political consciousness, keener economic aspirations; and the rights of Indians in regard to banking, insurance, shipping, industries and other economic activities claim, and clamour for, immediate and prime consideration. Such of us as have followed the history of Indian politics in the last few years would realise how complex and how delicate is the problem, with which those who desire a peaceful readjustment in the political relations between Great Britain and India are faced. And such of those as have given thought to the various issues raised by the Haji Coastal Traffic Reservation Bill would likewise realise the delicacy of the problem in the economic sphere. The banking committee has a grave responsibility as it has, perforce, to give serious attention to the problem of exchange banks *versus* Indian banks. No cut-and-dry formula would afford a key to the solution of this knotty question. In the sections in which we have given succinct accounts of the banking systems in other countries as well as of banking law, and of what other nations have done to further and promote the interests of domestic banking, a good deal of useful material will be found wherewith the statesman and the peacemaker can find a solution, fair and equitable, to all interests concerned, though a warning must be uttered that the example of other countries cannot always be a safe guide nor the only guide in the case of India, where the history of the past should also receive due weight.

Though the Indian joint stock banks came on the scene much later than the Presidency Banks (which, early this decade, were amalgamated into the Imperial Bank of India) and some of the exchange banks, the Indian banks have a peculiar significance in so far as they constitute the nucleus out of which a national banking autonomy could be created. There are twenty-nine such banks with a paid-up capital and reserve of over Rs. 5 lakhs, and forty-eight whose paid-up capital and reserve range between Rs. 1 lakh and Rs. 5 lakhs. The deposits of the former

group come to about Rs. 60 crores while those of the latter come to Rs. 3¼ crores. The capital and reserve of the first group exceed Rs. 11 crores and of the latter 1½ crores. Amongst banks whose paid-up capital and reserve exceed Rs. 20 lakhs barely half a dozen have reached importance and status. If it is possible to talk of a "Big Five" in the case of India, we should make up the list by singling out (1) The Central Bank of India; (2) The Bank of India; (3) The Allahabad Bank; (4) The Punjab National Bank and (5) The Bank of Baroda. Between these five institutions, they account for just more than three-fourths of the total deposits secured by all the Indian joint stock banks put together.' Amongst those banks who have not yet reached the size and position of any of the Big Five, but who are making steady progress must be mentioned, the Indian Bank, the Bank of Mysore, the Punjab and Sind Bank, Dawsons Bank, Benares Bank, Nudungadi Bank and the New Peoples Bank of Northern India. The Indian banks have, on the whole, shown great stamina and considerable progress, especially in view of the many and serious handicaps with which they are faced. In the first half of this decade most of them were able to expand their business appreciably, increase their deposits and otherwise strengthen their earning capacity. At the same time, they followed a remarkably conservative policy in regard to the dividend distribution and utilised a fair proportion of the profits for the building up of the reserve. But, even so, the extreme depression through which Indian trade, commerce and industry have been passing in the last four years, the devastating depreciation which has occurred in properties, the impaired economic vitality all round, the consequent increase in the number of frozen or "doubtful" advances, the difficulties, expenses, worry and losses connected with their recovery, the paucity of business, the keener competition, the unavoidability of making large investments in giltedge, both because of lack of other suitable or reliable investments and because of the need of keeping as liquid a position as possible, in view of the difficulties of the general financial situation, the earlier frenzied up-rise in giltedge, leading to still more diversion of funds in giltedge, the sharp and steep decline in the values of Government securities ever since the latter half of 1926; the resultant need for making large and larger provisions for such depreciation, the reduction in the amounts available for dividend distribution, the repercussions, in regard to deposits, of the lower dividends; the growing uncertainty as to the present and apprehensions as to the future, as a result of shrinkage in deposits, in the scope for outlay of funds, and in margins of profits—such is, in brief, the tale of woe which the Indian joint stock banks, barring a few—a very few—exceptions, have to narrate of their present plight. It certainly looks as though a malignant Providence has fostered and encouraged a sinister and complete conspiracy against the Indian banks—and amongst the factors, who have, unwittingly for the most part, come to play an important part in this "conspiracy" are (1) Government, who by the high rates they offer on postal cash certificates and Treasury bills have loomed into serious rivals, whose credit, currency and exchange policy has played havoc with giltedge prices and thus caused immense loss to banks amongst others, and who, on the whole, are innocent of one single gesture of good-will and active friendliness to these institutions; (2) the Imperial Bank and foreign banks, who, by virtue of their larger capital and reserve position older age and longer connections, and of various other favourable circumstances, command greater credit and cheaper

funds; (3) the Indian public, who are easily prone to give credence to the vaguest rumours and most mischievous and unfounded reports about Indian banks and whose attitude was described by Mr. Nalini Ranjan Sarker in a recent speech as "tantamount to placing a handicap on the national, and offering a bounty to the foreign banking enterprises in the country".

While we have the fullest sympathy for the Indian banks in their uphill task; while we urge, with all possible emphasis, that no banking growth in this country can, or need, be looked forward to unless and until more congenial conditions are created for their more healthy development and more rapid progress; and while we are convinced that considering the odds against them, and considering that in the earlier stages of any institution or system, many mistakes, much diversion of energy possibly in wrong channels, and experience bought at a heavy cost are inevitable, the Indian banks have put up a brave fight and proved their mettle, our account of the present banking conditions in India would not be correct or complete, if we did not also refer to the drawbacks and deficiencies in the service and working of the Indian banks. In the first place, they have, while showing enterprise in the sense of starting business in a line and on methods, wherein only Europeans had shown proficiency, been content to be mere imitations of European models. And as their Western compeers had been much earlier in the field, gathered larger and surer experience. and built up for themselves an impregnable position, Indian banks were in the nature of pale, ineffectual imitations. They did not show any great originality or initiative in chalking out new lines. For example, one of the directions in which fruitful results should have been forthcoming would be the combination of the efficiency of European banking with the economy of indigenous bankers. The result is that they have attained neither that efficiency nor been able to conduct their operations on that level of simplicity and cheapness which would have enabled them to withstand any competition and even to face adverse times with equanimity. In the bigger businesses available at principal centres, they are at a disadvantage as against the European banks; and in the up-country centres and rural parts, the indigenous bankers give them a good fight. The Indian banks have not demonstrated that they can be of India, Indian, while remaining responsive to whatever was worth assimilating in foreign banking methods. They have failed to develop a definite and clear-cut personality for themselves. A great deal of the future prospects will depend upon their ability to assimilate the "virtues" of modern European banking and of age-old indigenous banking and to reject the "vices" of either.

Another defect of the Indian banks is that they have so far been lacking in *espirit de corps*. The exchange banks, though under conditions prevailing to-day there is cut-throat competition amongst them and though they come from diverse countries, have yet their own Association and their own mutual understandings, and can and do act in full co-operation whenever questions of common interest arise. Not so the Indian banks. We have ourselves known instances where an Indian bank seeking an agent at a centre where there may be both Indian banks and foreign banks would choose one of the latter. Nor are instances rare where Indian banks, while selling T. T. S. on other Indian centres or placing call money. would instruct their brokers that the bank on the other side may be any other than an Indian bank. Mutual

jealousy is the rule and not the exception. In most cases, an Indian bank would be willing to "hob-nob" with the exchange banks but might deem it *infra dig* to "rub shoulders" with its own brethren, though the latter may have a position not less impressive than its own. In writing thus about the absence of cohesion and cordiality amongst Indian banks, we do so from our own direct experience. Often have we tried to create a better understanding and, if possible, a common platform amongst them—and it pains us to say that our efforts have never evoked any great enthusiasm amongst the institutions concerned.

For our part, we are convinced that the one great reason why Indian banks have not so far secured a fair hearing for their grievances is this lack of co-operation amongst them and their failure to speak with one voice and as of one mind.

If, on the one hand, the types of banks in existence to-day cannot cater to all the varied needs of the country and the banking amenities available are ill-spread and inadequate, the amount of capital and investments which flow into the banking circles represents, on the other hand, only a fraction of the total resources. Due to the diversion of gold for non-monetary purposes, and heavy accumulations under this head for generation on generation, and due to the immobility of real property, the transfer and sale of which and raising loans whereon are so cumbrous, tardy, expensive and uncertain owing to the kind of legal titles in use, there is a vast deal of capital which is disabled or hoarded. If the aim of the Banking Enquiry is to find out the various measures to be adopted in order that all sections of the community could secure cheap, easy and necessary accommodation on reasonable security, its aim must also be to explore the avenues whereby the banks, to make such advances, are enabled to strengthen their resources. Put briefly, the problem is two-faced; (1) what should be done to mobilise and bring into the investment market all the capital now dead and buried in gold and properties? and (2) what are the various classes and types of banking services required, and what types of institutions should be inaugurated, and how?

As a good many of those associated with the Banking Committees, Provincial and Central, appear to have either an appreciation of only the second problem or but a hazy and amorphous idea of the first, we wish to emphasise that banks can lend only when they have funds; and that a study of the psychological, historical, practical and economic factors involved in the gold problem of the country is essential and imperative with a view to convert all this potential into kinetic wealth. To make a catalogue of the items in regard to which banking amenities are insufficient or non-existent and to make elaborate and impressive schemes of the different forms of banking institutions required therefor is, on the whole, an easy and facile business; and copious evidence should be forthcoming on these aspects. But, while to talk of the "hoards" has remained for long the pastime and taunt of economists repeated parrot-like by others, the ways and means to be adopted for drawing out those hoards have received so far no serious attention and there is scarcely any evidence of a serious attempt at solution. In our view, the criterion of judging the achievements of the Banking Committees would be this: have they collected all the full facts and figures in regard to the frozen, hoarded and disabled capital of the country; and what are the concrete and specific

proposals they adumbrate whereby this frozen wealth will thaw and irrigate the credit soil in a copious stream, the hoarded wealth will give up its partiality for the dark recesses and come out into the open, and the disabled wealth will be won back to take a vivifying part in the domestic capital market.

Let us first examine the gold problem and see if there is a key to its solution. Partly because the country has been denied the advantage of a gold standard and gold currency, partly because, amidst all the fluctuating prices of the various modes of investment, gold alone seemed to be of an unshaken and unshakeable value, partly because sentiment, tradition, customary usages, etc., had come to invest gold with a value and status all its own, and partly because, owing to general illiteracy, ill-developed banking system and lack of knowledge of confidence-inspiring securities, gold came to be looked upon almost universally as the most reliable store of value. The present moment, however, is appropriate for bringing home to the masses the real nature and extent of the popular fallacies in regard to gold as a store of value. Within the last ten years many things have happened to shake the faith of the simple folk in gold. Even gold has not only fluctuated in value but fluctuated violently. At one time gold sovereign which for a long time had been priced at Rs. 15 shot up to over Rs. 18. And soon came the announcement that the statutory value of the sovereign was Rs. 10 and there was a mad rush of those who held sovereigns, possibly bought at the high levels, to tender them to Government and get payment on the old rate. This proved, however, to be a needless panic. The sovereign at Rs. 10 remained a myth and a fiction; and since then prices had again fluctuated between wide limits. It is only within the last three years or so that the margin of the variations in gold price is reduced. But the point we wish to emphasise in this connection is that the simple faith in gold has been rudely shaken and that if only the psychology of those who are wont to store gold is tackled correctly and properly and if something is offered to them, which will convince them that it is not only as stable and as secure as gold but more stable and more secure than gold, then there are good grounds to believe that a fair percentage of the gold stocks would be exchanged for the more confidence-inspiring security. The occasion is apt. But what is the apt method? We have given careful thought to this question; and we feel that if Government were to issue Gold Certificates on the following basis, they should succeed in drawing into the currency reserves a handsome proportion of the gold now lost in non-monetary ways.

The Gold Certificates scheme, we have in view, is somewhat as follows: (1) Government should invite holders of gold stocks to deposit it all or any portion of their gold with the Paper Currency Reserve, giving at the same time an assurance that the depositors of gold may withdraw at any moment without notice. (2) In exchange for the deposit of gold, Gold Certificates should be issued. These certificates will be analogous to the Postal Cash Certificates and their duration will be five years. (3) Anyone depositing, say, Rs. 80 worth of gold will be entitled to Rs. 100 worth of gold at the end of five years. (4) At any time within the five years, however, the depositor may withdraw the gold, and he will receive an amount of gold which equals the principal of Rs. 80 *plus* interest thereon on a scale which is graded according to the length of the deposit on lines similar to those of the Postal Cash Certificates. The guarantee by

Government that the gold can be withdrawn at any time as gold will generate sufficient confidence in the Certificates. And those who now hold gold stocks in small or big quantities will come to realise that, instead of keeping gold with themselves and running the risk of theft, etc., and also with the chance of fluctuation in price, an arrangement, which amounts to keeping that gold on safe deposit with a stable party like Government, and incidentally earning interest on the safe deposit and with a guarantee as to price, is an ideal scheme which has everything in its favour and nothing against. Whether or not the innumerable individual small "hoards" would be appreciably affected by the scheme, the hoards of medium and bigger sizes would assuredly contribute a large amount of gold to the reserves. In the last two years, a good deal of the silver rupees and currency notes from the Nizam's hoards has come out for investment in Government securities. The gold in his possession could be coaxed out of its retreat only by a scheme of Gold Certificates with a clear and specific guarantee as to the availability of the gold at any moment. There are many ruling princes, landed and commercial magnates, temples and *mutts*, who hold, in the aggregate, vast amounts of gold; and they would likewise respond to the attractions of Gold Certificates. In a matter of this kind, it is difficult to give any specific figures. But we would not be surprised if, by this means, the reserve attracts gold to the amount of Rs. 50 crores. And, even assuming that there may be, in the earlier stages, withdrawals in order to test the *bona fides* of Government guarantee, that portion of gold on which Government could absolutely rely as a minimum would be considerable indeed—the same as a banker can always count on a minimum balance even though the current accounts of a bank are withdrawable at any moment. In schemes like this, it is easy, probably tempting, to make criticisms that wear an aspect of practical importance. But it is essential for one who is engaged in a constructive task to fix one's eye on the ultimate objective and the practical feasibility of an idea increases in proportion to the sincerity or fervour for reform.

The Banking Committee would be building on the most insecure foundations if it neglects the task of weaning the masses from the uneconomic habit of hoarding or fails to provide for the inculcation of a truer economic sense in those toilers who form the backbone of any national economic system. A scheme for the drawing of gold out of the hoards and a propaganda for the assimilation of the true principles of co-operation are indispensable if banking reform is to materialise and fructify. The articles on co-operation in India which appear in the Number have drawn pointed attention to the latter problem and we may be content with expressing our agreement with the opinions expressed therein without dilating on them in this place. All this is of general, though, paramount import; and the improvement in these respects must come as much from what may be called a national awakening as from a conscious policy of the State and the efforts of the authorities.

If we assume an attitude of robust optimism in this regard, the next question would be: what are the concrete measures of reform and legislation that are necessary to fulfil the objects for which the Enquiry has been inaugurated? *Indian Finance* has so often allowed itself to employ the term "Indian Banking Autonomy" that it has an obligation to explain its true and exact import. Autonomy signifies nothing more than that state of perfection in banking in which the nation as a whole and every

individual national thereof will not have to depend on others for purposes of credit, essential for the conduct of one's economic life, more than is necessitated by the law of inter-dependence between man and man, nation and nation. The rule by which the Banking Enquiry must be guided is that no feature of our present banking should be allowed to continue if it is not justifiable by that law of inter-dependence. If the cultivator and the *sowcar*, the producer and the middleman, the depositor and the banker, the industrialist and the merchant, the exporter—importer and the exchange banker, are not mutually helpful but one tyrannises over the other by reason of the latter's need for cash, then that is the negation of "banking autonomy"; and there is the field for the reformer.

As it is, we have only the negation of banking autonomy. And to achieve and establish autonomy, we must naturally turn, for obvious reasons and for obvious causes, to the State and the machinery of Government. Happily, Government have moved far from the days in which indigenous banks, as a writer has elsewhere remarked, were regarded as the "Cinderella" of the nation. But they are equally distant from a full appreciation of the need for State help to banking or a recognition of their obligation to furnish such help with alacrity. The greater part of the reforms which the Enquiry will recommend will have to be achieved by special legislation; and we hope that Government, even under its present constitution, will stand by the implications of their action in inaugurating the Banking Enquiry.

It must at the same time be borne in mind that if we mentioned Government first, it is because the State is, or ought to be, the embodiment of the general will; and that State policy cannot reduce, and must, in fact enhance, the duty of each citizen to further the ends of such policy. Not a little of the backwardness of Indian banking is due to the childish attitude of depositors. They have, in effect, given a bounty to the foreign banks by their unquestioning confidence in them, visited the Indian banks with a suspicion that was more often unjust and in the end have heavily handicapped them in their race with their rivals. It is true that depositors have many a burnt finger to show. There is no case but has two sides. But no impartial jury can withhold the verdict that the depositors are guilty of murdering more than one sound banking institution and that unless they cure themselves of the present mentality, banks in India must come to an unnatural end. And in this task of bringing about a healthy mentality the banks and Government have also their share. The danger of unreasonable "runs" and undeserved liquidation must be combated by the joint efforts of all concerned. And to this end we believe it is necessary, as a starting point, to have such legislative action as will hold forth to the public the assurance of honest and efficient management. While it is the duty of banks, on the one hand, to keep their dealings above board and the duty of the depositor, on the other, not to embarrass the bank without reason, it is for Government to bring them together and promote mutual understanding. A system of State audit and supervision, such as obtains in the U. S. A., where the Comptroller receives periodical statements and is authorised to call for such special information as is necessary, will not fail of its purpose in promoting better relations between the depositor and the banker. We hope there will be adequate appreciation of the need for firstly, every individual conserving instead of dissipating, as he does now, his economic resources and secondly, the development of the habit of trust in those who handle moneys.

This is the basis of any banking structure; and we may proceed now t consider the banking institutions and types of banks which are essential, nay, indispensable, for realising our ideal of Indian banking autonomy. The Central Banking Institution is admittedly the centre of a national banking system. If banking institutions are to devote themselves to the pursuit of a deliberate policy of national economic uplift and not indulge in a blind man's-buff, a Central Bank is an obvious necessity. As even the proverbially short memory of the public cannot have forgotten the debates on the Reserve Bank Bill and the many sound points that were raised and expounded during its discussion, we feel it unnecessary to recapitulate them again at any length. Suffice it here that the supporters of the view, that the Imperial Bank of India could be transformed into a Central Bank were always few, are growing fewer and have at no time carried conviction to their opponents or the impartial lay public. We have and indeed, need, no alternative to the creation of a new institution specially devised for the purpose, with all the checks and balances that the history of modern constitution-making has shown to be necessary and adequate. Without such an institution it would be idle to expect any co-ordination of policy or effort in that distracted and chaotic world which, out of a habit of weak imitation, we call the Indian money market. If the break-up of hoards, the growth of the habit of investment and the development of the spirit of trust are the bases of banking reform, the constitution of a Central Bank is assuredly the right beginning.

And if that is vouchsafed, then one can proceed with the organisation of the various types of banks. Industrial banks will perhaps, claim the first consideration as they have been neglected longest and as industry and the products of industry are essential for the growth of banking. Banking implies some surplus over expenditure which the individual places with the bank in order that economic activity may be quickened. And in India such a large part of the population lives on the margin of subsistence and the pressure on agriculture is so great that industrial organisation is imperative. Much has been written on this subject since the Industrial Commission submitted their report; but the idea has not been popularised that in this respect, it would be better to adapt an existing institution than to found new ones which must necessarily lack experience and tradition. We have broached in our columns the idea of converting the Imperial Bank of India into an All-India Industrial Bank and may present it with emphasis for the consideration of the Banking Enquiry. There are two ways of considering this question (1) from the standpoint of the bank, which in the event of the creation of a new Reserve Bank must suffer a loss of prestige and a curtailment of its scope and prospects and (2) the standpoint of our need for an institution which will function as an Industrial Bank without delay and without the handicap of strangeness to actual conditions.

In regard to the first, it will be seen that the Imperial Bank of India though originally designed to function as a Bankers' Bank, has now become unfit for it and that at the present moment there is no choice but to deny it the character of a central banking institution. That means it has to be deprived of privileges which it is now enjoying and which ought to belong to the Central Bank of the Country. It is a matter for concern that an institution of that magnitude and importance, with a staff which is one of the few bodies of bankers who can lay claim to a thorough training and long experience, is to be reduced to the status of an ordinary

joint stock bank. And what is more, it will be shorn of its former prestige, deprived of the most fruitful sources of income, burdened with an establishment that might prove too big for the work and too costly for its means and, in a word, left with a load of handicaps which might well prove crushing. It is not fair to the shareholders; nor it is good for the country to throw away the services of a puissant corporation. The Hilton Young Commission have propounded a scheme of compensation. But its fatal defect is that it loads the scale against the Indian joint stock banks who have been already seriously affected by the competition of the Imperial Bank of India. The manager of every Indian bank has spoken at length about this question; and the least that public interest demands is that in its fight with the Indian joint stock banks the Imperial Bank should have no access of strength. Thus, neither the *status quo* nor the change suggested by the Hilton Young Commission is safe to the Indian banking world.

Turning to the second stand-point we mentioned, it will be seen that the schemes propounded in regard to industrial banks are vitiated by a facile belief in the capacity of new institutions to fit into the present financial structure. Industrial banks, to be successful, require first, a staff of administrators who are acquainted with the business world thoroughly, who know the individual businessmen and the conditions of each industry and only secondly, a body of experts who can judge new schemes, offer advice and do the other work which are peculiar to industrial banks. In the staff of the Imperial Bank we have a body of men who have known the Indian business world so thoroughly that for them to shift from one branch of inland banking to another is an easy matter. Space prevents us from dilating further on these points; but we believe we have said enough to show that the conversion of the Imperial into an Industrial Bank suits all circumstances and any different identity will tend to make it a misfit in our banking structure. It is our firm conviction that if the Imperial is converted into an Industrial Bank, empowered to raise debentures for fifteen to twenty times its capital and reserve, invested with the other features of that institution and directed to work the change by an easy transition, we shall be solving a number of problems at one stroke.

Exchange banking is the next sphere in which it is believed India lacks banking autonomy. The suggestion has been repeatedly made, and we were ourselves inclined to that view at a stage, that the Imperial Bank should be converted into an exchange bank. But such a view overlooks the fact that exchange banking is a highly technical matter in which experience counts for a great deal more than people can imagine and the staff of the Imperial Bank is ill-fitted for such a venture. It is also necessary to remember the conditions that now obtain in the exchange market. Time was perhaps, when exchange banks were quoting much above the economic rate and merchants were forced to pay what the banks demanded. But such conditions are of the past and the advent of new banks has brought about such competition that it may even be wondered whether these banks acquire any profit through their exchange business. In this state of affairs it is not desirable that the Imperial Bank should also dabble in exchange; and we may point out in passing that this is an additional reason why it should switch on to industrial banking.

It may be granted, therefore, that the founding of exchange banks which are Indian in character is not so imperative. But at the same time

the strength of national sentiment must be considered; and even the practical view will not deem it safe to have the nationals kept out of so important a branch of the banking system. We would, therefore, consider it wise to make provision for the future by ensuring the training of Indians in the intricacies of exchange banking so that, when the time comes, they could devote their talent to purely national concerns. So far, the Indians have been consistently kept away from the more responsible positions in the exchange banks; and we have no doubt that the banks will recognise the injustice of such a policy and heed to the claims of Indians for training. That this is not mere altruism will be evident from the fact that in the reorganisation of our banking system such as the Enquiry is out to effect, it would be open to India to impose those restrictions which foreign exchange banks have had to submit to in other countries. The right to take deposits has everywhere been withheld from foreign banks; and if we desist from that course, is it not the least that the exchange banks can do to undertake to staff their offices with Indians up to an agreed percentage? There will then be a rough balance of advantages and if the exchange banks are unwilling to agree, the denial of the right to take deposits can be used as a bargaining counter.

In regard to other branches of our banking, land mortgage banks are so obviously necessary for an agricultural country like India that we do not deem it necessary to consider them at length. And as for the scheme to be adopted for India, the general outlines have been furnished in a Special Article on this subject, which we commend to the consideration of the public. As for the Indian joint stock banks, many of their problems will be automatically solved by the adoption of the measures we have so far explained. Their growth till now has been sickly; they have experienced a heavy infant mortality. Their position at the present moment is precarious. But their trouble is not any chronic disease but only malnutrition. The remedy, therefore, lies in the discerning and active support of these institutions by Government and the public—and, not least of all, by themselves.

The indigenous banker is the centre of a set of problems which call for early solution. He has so far been so unobtrusive that to the public he may even seem to be a strange and unfamiliar figure. And if he is in the picture to-day, it is due not so much to himself as to the realisation of his significance by others who want to unify the Indian money market and make it function as an organic unit. Much mystery and much prejudice have attached to him and his activities, and not unjustly. For the indigenous bankers comprise various grades and characters, ranging from the big bankers who serve the same function as the acceptance houses of London, through the banking houses of medium size and respectability, to the despicable Shylocks of rural areas. All these have to be brought within the orbit of the Central Bank and other organised institutions. Loose thinking and vested interests will assuredly bring forth a crop of unsound suggestions; and the subject is, indeed, so knotty that no cut-and-dry solution is possible. But one thing may be granted, that the indigenous banker has been responsbile for the prevalence of usury, and any measure that is calculated to bring about publicity in regard to his activities will tend to curb this evil and must help scientific banking which, as Mr. Nalini Ranjan Sarkar observed some time ago, "does not throw its roots in a soil in which the poisonous weeds of usury have thriven for

ages". For our part, we would welcome legislation calling upon indigenous bankers to register themselves and publish at least half-yearly statements of their assets and liabilities. There is undoubtedly much that is "fishy" in the dealings and activities of the lower classes of indigenous bankers and publicity is an antidote, at once necessary and sufficient. Co-operation has, indeed, done much to mitigate the evils of usury; but it has much more to do not only in this respect but also others. The least that democracy, where it is not socialistic, can do is to treat co-operation as its pet. India is on the eve of democratic government; and may it not mean that the best days of co-operation are come at last and that the best attentions of the future Government of India will belong to the co-operative movement?

The solution of the Indian banking problem is an arduous task. And if we but have imagination to see what its accomplishment means, there is not one who would dwell unduly on the difficulties and the obstacles. Indian autonomy is a prize worth any effort. Our nation is poor, for our toilers have no money, and those who have, have buried it in hoards. Talent, learning and genius alike have gone to waste, the country run down to abject penury. Ignorance followed; and subjection formed a train of miseries which it were anguish and agony to contemplate. The key to the new world of hope and achievement lies in the hands of those who are now collectively termed the Banking Committee.

No. 27.

Statement of evidence submitted by Mr. K. C. Kataria, M. Sc., Karamoon Deori, Amritsar.

Q. 3 (1).—Are you in favour of audit and examination of bank accounts by examiners ?

If so, how should these examiners be appointed and by whom ?
What should be the duties of these examiners ? What should be their qualifi cations and how should their cost be met ?

Answer.—Yes, the banks should be audited by the examiners. It will inspire public confidence because a great part of the loss which any bank sustains comes from misrepresentation of facts by borrowers. Some of them, unfortunately, are wilful. The Central Bank of India, Ltd., has suffered several times through the hands of such mischief mongers.

There should be a Banking Examination Committee under the Registrar of the Joint Stock Companies and these examiners should work under that committee.

Duties of Bank Examiners.

A bank examiner must be a very tactful person. He should realize that his duty is to build up and not to tear down. He should try to cultivate the respect of the bank employees. Supposing he discovers some methods which are not satisfactory or any kind of fraud, he must not curse the employees but should make the suggestions in a polite manner. A successful bank examiner's motto is " Not trying to find things wrong but expecting to find things right ".

His visits to the banks must be surprising. Saturday afternoons would be best. First of all he should get a copy of the bank's weekly statement. He should scrutinise that carefully and this would give him a good idea of the volume of the work and the nature of assets and liabilities which will shortly demand his attention.

He should seal the vaults where securities and pronotes are kept. After this he may count the cash and tally with the books.

After this securities may be counted. If securities are lodged with the Imperial Bank of India or some other bank, the total amount and detail be ascertained by direct correspondence.

Loans should be properly investigated. He must be careful to see that the pronotes, securities and confirmations are in order. In case the security is not sufficient, party is not safe, loan is very old or confirmation is not obtained, polite suggestions be made to the manager.

For obtaining particular data from any branch, the examiner may write direct. He may do the same with bankers and agents too.

The income and expense items must be carefully verified. The examiner must be scrupulous enough to see that the bank is receiving income from securities at proper time and interest on advances is realised every half-year. In

examining the expense accounts he must scrutinise the detail of general charges, check the salary bills, observe minutely the correctness of interest paid on deposits and watch minutely the expenses on postage, stationery, travelling and advertising, etc. In short he must make a thorough checking but in a polite way.

Qualifications.—The examiners must be graduates of commerce with practical banking experience of three years at least. They should receive fixed salaries from their department. These expenses may be met through assessment in proportion to the working capital of the banks. In no case the examiners be allowed to accept any present from any bank official. They must not put up at any bank premises.

Q. 3 (8).—Would you state the principal causes which in your experience or observation have led to bank failures in India ?

What remedies would you suggest to prevent a recurrence of such failures or to secure timely assistance in such cases ?

Answer.—The principal causes which have led to bank failures in India are :—

1. There is no Central Bank in India which the other banks may approach at time of need.
2. The banks which the Government in India have fostered so far have always turned a cold shoulder to Indian banks. The treatment by the Bank of Bengal to the Peoples Bank of India is well known. The Punjab Co-operative Bank was such a sound institution that it would have never closed its door had it received even little assistance at time of need.
3. There is no connecting link among the Indian banks also. The disaster of 1912 would not have been so keen had even the Punjab National and the Peoples' Banks combined.
4. In the absence of a Central Bank we have not even other facilities such as there were in the United States of America before the establishment of the Federal Reserve System. There, at time of need, the clearing houses used to issue certificates on the collateral of commercial papers of the member banks, and through these the applicant bank met the debit balance of clearing house.
5. Lack of State banking regulations regarding reserve, cash balances, rates of dividends, loans to directors and officers of the bank, total amount to be advanced to an individual person or firm, etc.
6. Want of banking education and propaganda in India.

People in our country are very ignorant. Some mischievous persons create the trouble and even the baseless rumour catches fire. Many of us cannot imagine why a bank cannot afford to keep all the money of current depositors at all times.

The banks in India are not doing any banking propaganda either. As yet the writer has not come across any advertisement which gives some idea of banking in general. Those who advertise, they do so in the old hackneyed way. The banks should give some idea of their business value to the public.

The banks should advertise their balance sheets in a simple language. A typical form is given below :—

A BANK STATEMENT THAT ANY MAN OR WOMAN CAN READ.

The Punjab Co-operative Bank Ltd., Amritsar.

Statement of January 1, 1930.

		Rs.	a.	p.
1. The Bank owes to Depositors . . .		82,44,918	7	10
A conservative banker always has this indebtedness in mind and he arranges his assets so as to be able to meet any request for payment.				
For this purpose we have—				
1. Cash		3,65,798	13	11
Currency and coin in hand	Rs. 1,86,919 10 2			
With the Imperial and other banks . . .	1,78,879 3 9			
2. Drafts on other Banks and Persons (payable in one day)		11,894	15	6
3. Government securities		24,64,500	0	0
4. Other securities (shares of Lahore Electric Supply Co. Ltd.)		5,000	0	0
5. Loans to Individuals and Firms (Payable when we ask for these. Secured by collateral of greater value than the loans).		67,59,064	4	4
6. Bank Building, safes and fixtures . .		1,43,158	14	0
This leaves surplus of		15,04,498	7	11

which becomes the property of the shareholders after the debts to the depositors are paid. It is a guarantee fund upon which we solicit new deposits and retain those which have been lodged with us for many years.

Our limited resources enumerated in this statement do not and cannot include those assets of friendliness and helpfulness which the bank has in the personnel of its Board of Directors and its officers and employees. These are assets which pay dividends to our patrons in service and satisfaction.

Bank failures will become a thing of the past if the above mentioned defects are remedied and the higher authorities employ men having training and experience.

Q. 3 (II).—Are you in favour of making any distinction between current accounts and other deposits and do you suggest any legislative measures for the purpose ?

Do you recommend the creation of a special class of deposits as distinguished from current and fixed deposits under the existing systems and the passing of any special legislative measures for the protection of such deposits with a view to encourage the investment of savings ?

Answer.—Yes, distinction must be made between current and fixed deposits. This will help the cause of depositors as well as of shareholders. Bankers should be required to keep cash equal to 3% of their fixed deposits while against current deposits, they must keep at least 20%. The distinction made in the balance sheet, through legislature, will strengthen the position of many joint stock banks in the eyes of the depositors as a large proportion of their deposits consists, of fixed deposits.

There should be two special kinds of deposits between current and fixed deposits. One ought to be Savings Fund Account. The banks in the Punjab are already providing this service to the public. The depositors may withdraw twice a week not more than one hundred rupees. This is proving of great use to students, teachers, doctors and others. The banks are allowing interest @ 4½% on minimum monthly balances.

Besides this, each bank should keep Merchants' Savings Fund Account. This should carry interest @ 3%. Depositors may be allowed to withdraw once a week up to Rs. 1,000. Interest may be allowed on minimum monthly balances. It will prove of extra use to petty shop keepers and persons who like to withdraw up to Rs. 1,000 whenever they like.

Banks should be required to keep cash equal to 5% of the first kind and 10% of the second kind. In case these suggestions are carried out, it will encourage savings on a larger scale.

Q. 4 (1).—What are the existing facilities for banking education in schools, colleges and Universities in India ?

Is there any co-ordination of effort between such institutions and the banks ?

Answer.—There are some commercial schools and colleges in India which impart banking education. Some of the residential Universities have also got colleges of commerce attached to them. Besides this, in big commercial centres there are some unrecognized schools which are rendering good service to the public interested in commercial subjects.

Leaving aside the unrecognized schools, one can say that there is no co-ordination of effort between such institutions and the banks. Of course some of the principals do recommend their students after completion of their courses to the banks, but that is nothing. Principals of pure arts and science colleges do the same many a time.

Q. 4 (2).—Do banks provide any facilities for the training of boys in banking business ?

What is the present method of recruitment of staff by the Imperial Bank of India, the Indian joint stock banks, the exchange banks and the co-operative banks ?

Answer.—If we were to judge the situation from a Western point of view, we can safely say that the banks in India do not put any hindrance in the way. They follow the policy of non-interference. If any of their employees likes to pass the London Institute of Bankers' examination, by studying privately at leisure hours, they do not object.

Except the Imperial Bank of India, the other banks do not attach much importance to the final examination of London Institute of Bankers even. The Punjab National Bank Ltd. has sent some employees to the Midland Bank Ltd., London, for practical training but that privilege is reserved for a chosen few only. The Peoples Bank of Northern India Ltd., takes M.A.'s, B.A.'s, LL. B.'s and

impart training from three to six months, but this bank also keeps its doors shut against men with ordinary backing although they may have received thorough banking training from world known professors and got practical experience from foreign banks. The writer comes from traders' family of Amritsar, possesses thorough knowledge of Sarafi and has studied upto B. A. in India He is a B.Sc. in Commerce of State University of Illinois and M.Sc. in Business of Columbia University in the City of New York and possesses practical experience of two American banks. *Inspite of all this he could not join the Imperial Bank of India or any other Indian joint stock bank on any pay, in any capacity for four years.* From this you can easily judge the value of trained hands in banking in India.

The present method of recruitment of staff differs with different banks. The Imperial Bank of India gives preference to lads of England over graduates of India. There are graduates who would love to join the Imperial Bank of India on even Rs. 50 per mensem but they are not given a chance. While every day we hear that so many youngmen have been recruited from England. The Imperial Bank of India is absolutely closed to Indians trained in foreign countries. Most of the Indian joint stock banks take only matriculates. The Allahabad Bank is very particular in this respect. The Peoples Bank of Northern India and the Punjab and Sindh Bank invite applications from graduates in arts and law. The exchange banks take only matriculates. They reserve the positions of sub-accountants even for Europeans. Indians must remain as clerks in these banks. The co-operative banks encourage graduates of agrarian class.

Q. 4 (3).—How far is instruction in banking, theoretical and practical, combined at present.

Answer.—In plain speaking there is no combination of theoretical and practical training in banking in India. As it has already been pointed out in answer to your last question, the banks encourage only matriculates. The professors in commercial colleges seldom remain in touch with the banks. Upto this time I have not heard of any case in India where the college authorities have recommended with success students for practical bank training during the long vacations.

Q. 4 (4).—Can you give any information regarding the facilities afforded in other countries in the matter of bank education ? Have you any suggestions to make regarding the facilities that should be made available in India ?

Have you any suggestions to make in regard to grant of facilities for higher training outside India to bank probationers and bank assistants in India ?

Answer.—The United States of America affords tremendous facilities in the matter of banking education. Most of the banks write to the Universities for boys. These boys work in the banks during the long vacations for four college years and after the completion of their course they get permanent positions with those banks. There the Universities work in complete harmony with the banks. Professors of banking always remain in touch with the banking world. For instance. Dr. Henry Parker Willis of Columbia University in the City of New York, under whom the writer had the honour of receiving banking training, is rendering yeoman service to the banking world. He remained bank examiner for several years. He was the Secretary of the Federal Reserve Board from 1914 to 1918. He organized the First National Bank of Phillipine Islands. He has also written over a dozen of books on banking.

In that country, hours as well as system of training can easily suit the bank employees. Universities situated in big commercial cities provide complete facilities to the ambitious persons. In order to graduate, a student has to pass in 140 units. A student can take as many or as few units per semester as he likes. There it all depends upon the ability of a student and the time he has at his disposal. If he is an intelligent one and has plenty of time at his disposal, he can secure the degree within 2½ years. In case he is working with some firm, he may join the evening and week end classes and obtain the degree after six years or more. In short, any person who has got a real strong ambition can receive full training.

Libraries of the United States give wonderful service to the public. They are open to the public upto 10 P.M. on all days including Sundays. The books in the libraries are not locked as we find in our country. There any person can take any book he or she likes. It is a pity that in India first of all, we do not possess many good technical books in most of our libraries. The few books, which we might have in some libraries, are kept under lock and key. In most of the libraries the opening hours are from 10 A.M. to 5 P.M. It means that libraries in India are meant either for offices or for those persons who have no work to do during the office hours. Again on Sundays they are closed. The very system prevailing in India is to kill the ambition of youngmen.

The big banks in the United States of America prefer to have men of good education and personality. Some years back, the National City Bank of New York recruited a number of undergraduates who were given a course of instruction in the bank during the long vacations. For their accommodation, the National City Bank organized the City Bank Club in a magnificent building overlooking the Hudson River and the New York harbour. The charge for board and lodging was about \$55 a month, which is remarkably cheap compared with what one has to pay for similar accommodation in any boarding house anywhere near the city. The majority of men were college men and they continued their studies while living in the club which had a reading room and other educational facilities.

The principal medium, in the United States, for imparting instruction to the bank clerks in the banking subjects, is the American Institute of Bankers, a section of larger American Bankers' Association, which has its headquarters and library above the Hanover National Bank, at 5 Nassau Street, New York. The American Institute of Bankers is not an examining body like the Institute of Bankers in London. It is a well organized teaching body. The American Institute of Bankers is organized into chapters. Each chapter has a consul in each bank in its district. The consuls carry out the propaganda of the Institute. A chapter is formed in any district where it appears there are enough members to make it worth while to engage lecturers, hire a room and so forth. The New York chapter is conveniently situated in very fine premises in 15th west 37th street, which is a half way between the city and the residential districts and is quite close to the theatres. Besides organizing lectures and conducting examinations, the chapter promotes social activities and runs a debating society. It gives a number of dinners, where well-known bankers are invited to address the members.

Suggestions for India.

In India, we can impart banking training in two ways. Firstly, in the big cities like Bombay, Calcutta, Lucknow, Delhi and Lahore, etc., where there are

recognised commercial colleges, let the bank officials co-operate with the college authorities and allow the undergraduates to work in their banks during the long vacations. These undergraduates should be given nominal pay for the time they work in the banks. They should be employed permanently by the banks after they graduate.

Secondly, we can train the clerks by organizing the Indian Institute of Bankers.

Facilities in other countries.

America affords tremendous opportunities for higher training of bank probationers and bank assistants. They can go to Chicago or New York. In Chicago, they can join the evening and week end classes of the Chicago University and work during the banking hours in some bank. The Columbia University in the City of New York or the New York University will give them good training, in case they join some New York bank. But this will be a costly game. Let the Indian bankers encourage those youngmen who have received thorough banking training abroad and educate the staff by organizing the Indian Institute of Bankers on American or other suitable lines.

Q. 4 (5).—Have you any suggestions regarding the constitution of the Indian Institute of Bankers ?

Answer.—The Indian Institute of Bankers should be an association of men and women connected with various kinds of banking business. Its objects should be :—

1. To facilitate the consideration and discussion of matters of interest to bankers.
2. To afford opportunities to its members for the acquisition of a knowledge of the theory and practice of banking.
3. To take any measures which may be desirable to further the interest of banking.

The supreme authority of the association should be vested in the general meeting of the members. The general meeting should elect a president and a vice-president of the Institute. The president should preside at the general meeting and meetings of the executive council.

The administration of the affairs of the Institute be vested in the executive council.

The executive council should be composed of representatives of the provincial Institutes, president, vice-president and two ex-presidents of the Institute. It should have in charge the business of the Institute subject to the control and direction of the general meeting. It should have charge of the finances of the Institute and authorise the incurring and payment of all proper expenses.

The educational work of the Institute should be under the general supervision of an Educational Board consisting of :—

(*a*) Two professional educators preferably professors of banking of commerce colleges.

(*b*) Two leading bankers—one must be an Indian.

(*c*) President of the Institute.

(*d*) The last ex-president of the Institute.

The Educational Board should work under the executive council. It should be both an educational and an examining body. In big cities like Bombay, Calcutta, Delhi, Lahore and Lucknow, it ought to organize Institute centres. At these places it can attract large number of bank clerks as well as lecturers on commercial subjects for one or two evening hours. If other cities can pay room rent, salaries of lecturers and other expenses, they should also be encouraged to have their own centres.

Like the London Institute of Bankers it should also hold examinations on banking and allied commercial subjects at different centres in this country.

The members of the Institute should be of three types, Associates, Certified Associates and Ordinary members.

Associates must satisfy either of the three conditions :—

(1) One who has served at least for ten years in any bank.

(2) Commerce graduates of Universities who are on the staff of a bank.

(3) One who has passed the examination recognized by the Board and is on the staff of a bank.

Certified Associates should be those who have passed the examination of the Institute. Ordinary members may be elected from the staff of any bank on Board's list.

Besides this, the Educational Board should afford facilities for the reading discussion and publication of papers by members and others. It should arrange for the delivery of lectures on banking, mercantile law, political economy and other kindred subjects.

Q. 4 (8).—What are the prospects, present and future, of boys trained in banking in India ?

Do you attribute the slow development of banking and especially branch banking to absence of trained hands in India ?

Answer.—In India there are some prospects for those who have received banking training in England only. Thorough training in the U. S. A., Germany or some other advanced country does not carry any weight in India. It is a pity that not to talk of China, Japan, Scandinavia and other advanced countries, even England sends her sons to U.S.A., for practical banking training but Indians who receive sound training in banking from that country have to rot in their own native land. The banks in that country are glad to let them into their institutions but the banks in India keep their doors shut against them.

It is right that the slow development of banking in general and branch banking in particular *is due to the absence of trained men not in India but in the service of banks in India.* But this defect will never be removed unless and until a law is enacted that no relative of any director should be employed in the bank. At present the greatest qualification which a person should hold is some close relationship with any of the influential directors.

Q. 5 (3).—Have you any suggestions to make with regard to the regulation and functions of clearing houses in India ?

Answer.—Clearing house association should be a distinct association. Where there are more than seven banks, there should be one like this. The association should consist of member banks. Each institution should be represented by one senior officer and have one vote. The association should

elect one president and a secretary. The secretary should keep a record of proceedings. Both should hold offices for one year and be eligible for next election. If the circumstances permit, the association may appoint a paid manager to look after its daily routine. The expenses of the associaton be shared among the members in proportion to their exchange for the previous year.

The association ought to hold a general meeting once a year. Special meetings may be called whenever the secretary thinks desirable.

In the capital of each province, there should be a clearing house association. All the suburban associations should work under that; banks, having a reserve of at least one-fifth of their paid-up capital, be permitted to become members. The duties of the provincial association should be executive only. It may fix the minimum commission to be charged by the banks from the member banks, other banks and clients. In the interest of the safety of banks, it may fix the maximum rate to be allowed by the member banks although it might not be workable under the exsiting circumstances. But in case the exchange banks are not allowed to accept, time and saving deposits and Government keeps its funds with the Bankers' Bank, the fixing of rates will work very well and prove of great help to the Indian banks. In abnormal days the provincial associations ought to issue certificates against security to the needy banks. But the interest on these certificates ought to be high so that they may be retired at an early date.

The provincial associations may work under the All-India Clearing House Association with its headquarters at Delhi.

Objects.

The objects of the association should be—

(*a*) The effecting at one place of the daily exchange between the members and payment at the same place of the balances resulting from such exchanges.

(*b*) The promotion of the interest of member banks.

(*c*) The maintenance of conservative banking through wise and intelligent co-operation.

Q. 5 (7).—Have you any suggestions to make with regard to banking organization in India by which

(*a*) Cost of management may be reduced.

(*b*) The rate of interest on advances can be brought down.

(*c*) Greater stability of banks can be assured, and

(*d*) The cash resources of various banks can be mobilised to meet any emergency or unexpected situation that may arise.

Answer.—In India, there still lingers in the banking field the thought that bankers are high priced busy men and that it is only proper and just for customers to sit around and wait for their needs to be supplied. In other words, banking in India is a luxury and not a necessity. Only those persons should keep their accounts with the banks, who either have plenty of time to wait outside the counter or can afford to keep a peon for banking purposes. This prevalent method has kept the cost of management very high and at the same time it has not made the banks very popular. This is not proper. A customer should be served in a bank just as promptly and courteously as one is served in a retail store.

The followng points, if executed, will increase the business, make banking popular and ultimately cut down the expenses in proportion to income.

1. In the small banks where the number of daily cash vouchers does not exceed fifty on ordinary days, the manager may sign all the documents. When he is busy in conference with the customers in a private room, the accountant must be authorised to pass cheques of those who have got credit balances or sanctioned limits. He should be allowed to sign the pass books also.

2. In case the number of cash vouchers varies between fifty and one hundred, the manager should be relieved of routine work. The accountant be authorised to sign pass books, paying slips, and cheques of persons having credit balances and sanctioned limits. Of course, the manager must see that the work is going on smoothly and the customers are being served courteously.

3. Supposing a bank has more than 125 cash vouchers on average days, then there should be one assistant cashier also. One cashier's counter ought to be near the current deposits clerk. The accountant may be relieved of the routine work. The sub-accountant be allowed to sign the pay in slips, pass books and cheque of persons having credit balance and sanctioned limits. The accountant may be authorised to sign cheques to be cashed from other banks, handle papers relating to exchange, retiring and clearing business and fixed deposits receipt. The manager be consulted in cases of entangled problems, loans and pronotes only.

4. In case the cash vouchers exceed two hundred, there must be one cashier after every hundred vouchers and the sub-accountants be entrusted with responsible work. The counters of cashiers and sub-accountants should be located in such a way that the customers may have the slightest trouble and minimum time in transacting banking business.

In dividing this work the manager must be extra cautious. In judging the number of average daily vouchers Mondays, Saturdays and days after holidays must be excluded. Supposing there is always a great rush at certain counter, the manager must not conclude that the particular cashier is slow and the other a smart fellow. Many a time it happens that the treatment of a certain person is not good and the customers prefer to avoid him. In short every manager should have this motto before him "*Prompt and courteous service to our customers first*".

Rate of interest on advances.

At present even the well organized banks are allowing 6% per annum on fixed deposits. In making advances they must keep a margin of 3% at least. Sound banks always keep a margin of 3%, sometimes even more than that. The Imperial Bank of India makes advances against ornaments @ 7% and allows 3½% per annum to time depositors. The exchange banks follow the same policy. Under these circumstances it is not possible to cut down the rate of interest on advances unless and until a Bankers' Bank is organized, exchange banks are allowed to accept only current deposits, Government money is kept only in the Bankers' Bank and all other banks are treated alike.

Greater stability of Banks.

Elastic currency and rediscounting privilege to the banks by the Bankers' Bank in India will solve this problem. To achieve this end we will have to follow the Federal Reserve System of the U. S. A.

Mobilization of cash resources of all Banks.

Rediscounting privilege and elastic currency through Bankers' Bank is the best remedy.

Q. 5 (8).—Considering that the dividends of established banks are fairly high, what in your opinion prevents more capital being invested in the expansion of existing banks or establishment of new banks ?

Answer.—Rate of dividend is not always the test of sound banking. The best test is the ratio of reserve to the paid-up capital which is rather low in India. There should be a regulation that no bank can declare any dividend unless and until its reserve is equal to at least one-fifth of its paid-up capital. The banks be also required to keep a strong reserve for investment depreciation. This will prove of great help in case the Government securities fall in value. The depreciation of other investments can also be written off. Besides this, there should be a contingent reserve fund. Through this banks can write off bad debts. Up to the time their reserve is equal to at least one half of paid-up capital, no bank be allowed to declare more than six per cent. dividend. After this end is achieved, it is advisable to transfer half the net profit to the different reserves. The other half may be given to the shareholders. At this stage too, the wise bankers write off their bad debts before arriving at net earnings and reserves for emergencies. In no case must they eat up their reserves.

Many a time declaring of high rate of dividend goes against the bank. It is proper that the rate of dividends of banks should either be steady or go up. But in no case it must go down. Once a bank's dividend rate goes down, it loses public confidence. This is exactly what has happened to the Punjab National Bank Ltd., and if I am not wrong to the Central Bank of India Ltd., also. The Punjab National Bank Ltd. used to declare 15% dividend. Instead of building up strong reserve, it was paying to the shareholders. This worked all right during the brisk business period. But as soon as the business cycle took a turn, its earnings decreased and bad debts increased. Naturally it had to bring down the dividend rate and use some portion of the reserve too. Through this the bank lost public confidence and deposits began to decrease inspite of higher rates on time and seasonal deposits. Since Lala Mulk Raj Bhalla has taken charge, public confidence has been regained. It will take another few years to restore it to its former position.

Lack of public confidence in new Banks.

In the writer's opinion, the well established banks can increase their capital without much effort ; but they do not try. There are a good many people who would prefer to buy shares of those banks whose reserve is equal to one half of paid-up capital, even at premium.

The following points prevent the establishment of new banks :—

1. Treatment of the Imperial Bank of India is not praiseworthy with the joint stock banks. It does not allow these banks the same facilities as it does to some of its own customers. If a customer has got accounts in more than two offices, the Imperial Bank transfers the balance from one place to another without any charge. But it does not allow the same facilities to the banks.

2. The rate of exchange charged by the Imperial Bank is too low to allow any joint stock bank to do the exchange business. The Imperial Bank has got hold of Government Treasury, it can afford ; but the other banks have to send actual cash.

Unless a Bankers' Bank is established, it is pretty hard to attract capital for new banks.

3. The established banks charge very little commission on collection business. Generally they charge the same rate from the small banks. Some time they charge more. It means that the small banks cannot do any collection business.

This defect can be remedied through the Indian Bankers' Association.

Q. 5 (14).—Have you any suggestions to make for augmenting the resources of banks so as to enable them to afford further facilities to commerce, industry and agriculture ?

Would you recommend anyone or more of the following methods for securing the increase in capital or would you suggest any other method :

(*a*) by way of foreign capital *i.e.*, by direct flotation in other countries or through foreign banks ; or

(*b*) by attracting the savings of the community ; or

(*c*) by funds made available by Government *e.g.*, a portion of the receipts from cash certificates and savings bank deposits.

Answer.—In this question paid-up capital of a bank has been confused with the working capital. Paid-up capital is the amount paid by the shareholders on which they receive dividends. The working capital includes reserve, paid-up capital, deposits, collection business, dividend unpaid and all other funds in possession of the bank.

India already has enough of foreign capital. Moreover, mere figures of paid-up capital never inspires confidence. The past career of the directors, economic management and a large proportion of earnings transferred to reserve will serve the need. The business of banks organized out of India should be restricted. They should be allowed to do only the exchange business. In no case they be permitted to receive saving and fixed deposits.

(*b*) Yes, it will pay us to attract the savings of the community. Ways and means be devised to convince the public that it is better to save in the banks a part of their earnings. Banks may advertise individually but it will be both economical and fruitful to follow the example of tea planters. The banks should join together and advertise through their association. We can get plenty of new ideas through books written on bank advertising.

(*c*) In the advanced countries post office saving funds and cash certificates are kept in the recognised banks. If the same practice is followed in India, it will greatly help the cause of banking.

Q. 5 (18).—What facilities and concessions has the Imperial Bank of India enjoyed from Government, Municipal and other Corporations and Indian States ?

Should all these be continued or restricted ? State if in your opinion joint stock banks in India should be afforded similar facilities and concessions ?

Answer.—The Imperial Bank of India has got deposits of the Government of India. Whether there is any private understanding or not, the municipal, other corporations and Indian States follow suit and generally keep their funds with it. It means that the Indian banks remain at a disadvantage.

This is not the question whether the facilities be taken away from the Imperial Bank of India or not. The point is that first of all Government should not keep its funds with any bank dealing with the public. Its bank

should be Bankers' Bank. In case the sound public opinion in India is not in this favour at present, Government funds should be kept in all the joint stock banks whose reserve is at least one-fifth of paid-up capital and which distribute one half of their net earning to their shareholders and transfer the other half to the different reserves. Indian States, municipal and other corporations be encouraged to patronise such banks.

Letter from K. C. Kataria, Esquire, B.Sc., in Banking (Illinois U. S. A.), M.Sc. in Banking (Columbia, U. S. A.), Amritsar.

I beg to enclose a copy of my letter written to Mr. R. C. Pandit, General Manager, Bank of Behar Limited, Patna, in reply to his memorandum submitted to your Committee, for kind perusal of your Committee along with my memorandum sent to you on 27th January 1930 and acknowledged by your goodself on 29th January 1930 per No. 1008.

Please owe receipt and oblige.

Letter from K. C. Kataria, Esq., Amritsar, to Mr. R. C. Pandit, General Manager, Bank of Behar Limited, Patna.

I am very much pleased to read your memorandum submitted to the Central Banking Enquiry Committee.

The treatment of Bank of Bengal with your bank is regrettable. But there is nothing surprising. This is the case with everything Indian.

You are right when you say that it is a joke to call the Imperial Bank of India the Bankers' Bank in India. In my opinion it is designed to crush the Indian banks. In many cases it does not give the same facilities to the banks as it does to its other customers. It allows overdrafts limits to its customers against Government promissory notes but in very few cases it gives the same facilities to the joint stock banks. When it sees that a joint stock bank is making little money through exchange, it refuses to do the T. T. business on scheduled rates even.

I perfectly agree with you when you say that the Imperial Bank should have been allowed to establish overseas branches and to enter into exchange business which is in the hands of the foreign banks. Those who advocate that the Imperial Bank should not take up exchange business give the following reasons:—

1. There is a great scope in India for utilising all the Imperial Bank's resources in financing internal trade of the country. In case it enters exchange business it will have to lock up considerable balances in London.

2. Foreign exchange business is attended with much risk and the Imperial Bank, so long it continues to hold Government balances, should not be allowed to take these risks.

3. The Imperial Bank is now holding bankers' balances; and if, as a result of its competing with the exchange banks, the latter withdraw their balances, the loss to the Imperial Bank may be more than the anticipated profit from exchange business.

Even a layman can prove these arguments as fallacious ones. No doubt there is great scope in India but it does not mean that the Imperial Bank should monopolise the whole banking business and the other Indian banks may go to dogs. As Bankers' Bank it ought to advertise in such a way that banking habits may be inculcated among the people and they

be encouraged to patronise Indian banks. It is a pity it is doing quite the reverse. It is immaterial if it has to lock up its funds in London, New York and other places. The gain will be much greater than the loss. Moreover, it will have deposits of its customers of overseas branches also.

If exchange business is a risky one, the internal financing business is not less risky either. Besides this, there is no gain without pain. Foreign exchange business must be done by the leading Indian bank. There are cases where banks holding Government balances are doing exchange business. The National Bank of India, Limited, is banker to the Government of the British East Africa.

The argument that in case the Imperial Bank enters into exchange business, the exchange banks will withdraw their balances is beyond conception. No bank can afford to exist without co-operating with the Bankers' Bank. The Imperial Bank is the keen competitor of the Indian joint stock banks but they have to keep their balances with this bank. Similarly, the exchange banks will have to keep their balances with this bank. Even if they withdraw a portion of their balances, we should bear such loss with a cheerful face as exchange business will come in the hands of the Indians and ultimately the Indians will take up marine insurance and foreign shipping business also. The gain will be much more than the imagined loss if any.

May I point out that I differ from you when you say that an audit or examination even by special auditors will not be of much use. I cannot say much about the Alliance Bank but I remember that in 1925, when I had recently returned from the U. S. A. somebody showed me the balance sheet of the Bengal National Bank and I told him, that even from the balance sheet it appeared that the bank was not in good standing. A balance sheet published according to the Companies' Act does give some idea about the standing of a bank. It was the balance sheet of the Punjab National Bank, Limited, which created suspicion in the minds of the public last year. Last year, simply by scrutinising the balance sheet of the People's Bank of Northern India, Limited, I pointed out at least five glaring defects about the standing of that bank to one of its Amritsar local directors. The auditors in India should be given greater powers than they are enjoying at present and similarly their responsibilities should be greater. They must be severely dealt with, in case, fictitious entries are discovered. Auditing must be more thorough than it is at present. As I have suggested in my memorandum submitted to the Central Banking Enquiry Committee, banks should be audited by the State examiners. These examiners must be of the same province and should work under the Registrar. Of course they will be graduates of commerce with at least three years' practical banking experience. In this way there will not be any language trouble as you say in your memorandum. These examiners ought to pay surprising visits to the banks. Thus the banks will not make as many adjustment entries as they do at present. Their investments will also be more safe and liquid than they are at present. If the reports submitter by the Government auditors are wrong and misleading they must be taken to task; but it does not mean that the auditing should be stopped.

May I add in this connection that I have also suggested that a bank whose reserve is not equal to 1/5th of its paid-up capital, must not be allowed to declare any dividend and a bank whose reserve is more than 1/5 and less than 1/2 of paid-up capital must not declare divided more than

at the rate of 6 per cent. per annum? After that 1/10th of net earnings be transferred to the reserve fund. This provision will make our banks more stable than they are at present.

In the matter of imparting banking education too, I beg to differ from you. It is of no use to send any student abroad when India cannot make any provision for those who have received training from advanced countries. After receiving academic education upto B. A., the writer spent full four years in the two leading Universities of the U. S. A., *i.e.*, State University of the Illinois near Chicago and Columbia University in the City of New York, under the world known experts of finance. He was the favourite student of Dr. H. Parker Willis, Secretary, Federal Reserve Board (1914-18) and author of over dozen books on banking and general business. It is a pity that for full five years he has not been able to join any decent Indian bank. If India has to care only for British degrees then it must be distinctly mentioned that students must not go to any other place except U. K. The writer has not taken any part in politics simply for this reason. It is regrettable that even the national banks have not cared for him. Under these circumstances, I would be the last man to suggest that students be sent abroad for training in commercial subjects at least.

I believe it will be more economical to train students right in India. There is plenty of stuff. The only thing required is organization and financial help. In the big cities, where there are commercial colleges attached to the Universities, let the banks allow commercial students to work in their banks, on nominal pay during the long vacations. In this way, they will receive both theoretical and practical training at a time. After they complete college studies, they can join the same banks. In this way the banks can have trained men for responsible positions.

We can train the junior staff by organising centres of Institute of Bankers in these places, for here we can easily secure the services of professors for one or two evening hours. These centres must be teaching ones. At other places where teachers are not available, we can have examining centres of Institute of Bankers.

You are right when you say that large advancement in banking and banking habits is possible if people are made to go to the banks and keep banking accounts. Of course Government can do a great deal in this matter but our bankers can do still more. Our bankers advertise but they do so in old hackneyed way. Let them impart some useful information to the public as the banks of advanced countries are doing. The language must be simple and convincing. An average man does not care much about the kinds of banking business. He just wants to know whether you can do his business or not. Advertise in ten different ways how saving fund accounts can help an average man. Convince the traders that it pays to keep current account in a well established bank. Advertise in a simple language the advantages of appointing trustees in one's own life time. Prove to the widows that you could help them in case their husbands had created trust in their life time. Inform the old people that the banks can collect their rent, dividend, interest, etc., and spend the money as they desire. Let the students know that they can get scholarship regularly if their parents' trust is managed by the banks, etc., etc.

Excuse me my letter has become rather long and I must cut short it here. May I request you to send a copy of the latest balance sheet of your bank?

No. 28.

Statement of evidence submitted by Mr. K. M. MacDonald, Managing Governor, Imperial Bank of India, Calcutta.

I.—Industrial Banks and credit facilities for India's main industries.

Q. 1 (*a*). *Fixed Capital Expenditure or Block* should, in the first instance, be met from share capital and later, if necessary, by issue of long term debentures. This is generally recognised as a fundamental principle of sound finance. A number of cotton mills have financed block expenditure from deposits from the public instead of from share capital and issue of debentures, and this practice has on different occasions been a source of embarrassment during periods of depression. The practice cannot be recommended.

Industrial company debentures, especially in Western India, are not as popular as they might be as the Indian investing public prefer a security which gives a prospect of capital appreciation. The establishment of Investment Trust Companies might assist in the popularising of debenture loans of limited companies.

(*b*) *Current Requirements or Floating Capital.*—This is met by deposits from the managing agents and the public, and by loans from banks. Loans from banks are usually secured by a charge over stocks accompanied by the guarantees of third parties.

Sound, well managed industrial concerns usually do not experience any difficulty in making arrangements for their financial requirements.

Q. 2. A trader of standing carries on his business in the most economical way to himself and will arrange for the required finance himself if it suits him whether he is a buyer, seller or middleman. Traders of standing find little difficulty in arranging for seasonal finance to meet their requirements according to conditions and customs which exist to-day but, if it were possible to identify particular advances with individual sales, currency bills self-liquidating in nature could more easily be used and credit thereby facilitated.

Q. 3. Advances against authorised securities under the Bank Act are usually given at Imperial Bank Rate. The rate of interest charged on advances otherwise secured is usually 1 per cent over Bank Rate. Advances to companies are often on the security of the hypothecation of stocks. In the case of the Imperial Bank of India, to meet the requirements of the Act, advances to companies of this nature are granted on the security of pro-notes drawn by the borrowers in favour of the guarantors, who are usually the managing agency firms and endorsed by the latter to the bank, and the hypothecation of stocks is taken as collateral security.

It does not seem to me possible to improve the legal status of hypothecations without adversely affecting the freedom of trade but, if it were made a criminal offence for a person who has hypothecated goods to deal with such goods in any way contrary to his undertaking under the hypothecation, I think that finance of trade would be assisted.

A number of companies hold their reserves in Government paper against which they borrow at or about Bank Rate.

Loans against personal security are given on terms which vary widely and according to the circumstances of each case—generally speaking they are on the whole reasonable.

Q. 4. I have already stated that fixed capital expenditure and block should be financed from share capital and the issue of long term debentures. With regard to floating capital for stock and other recurring requirements, banks have met freely the requirements of industrial companies in the past, according to the credit of the borrower.

I am not in favour of trade banks as I do not consider it a practical or safe proposition for a bank to restrict its business to special trades, as an essential factor in safe banking is a wise distribution of risks.

In my opinion industrial banks would not be a success in India at present. There would be little likelihood of the investing public having confidence in them and in the present stage of development there is not sufficient scope for successful operations. If such banks are established no special facilities would appear necessary and they must work on their own share capital and debentures, not on short term deposits.

II.—Financing of Foreign Trade.

Q. 1. The requirements of exporters and importers appear to be well met. Traders of standing and repute have little difficulty in making arrangements for business in accordance with their means and business standing.

Q. 2. The usual documents in connection with foreign trade are bills of exchange with full shipping documents attached. Credit is freely available to all exporters and importers of sound standing by discount of such bills. Clean credit is given [illegible] deserving cases to a moderate extent; it has, however, to be gran[illegible] cautiously if it is not to lead to over-trading or be sunk in b[illegible]nces.

The rates of interest [illegible] credit fluctuate with the Imperial Bank of India Rate which is normally righer in the busy season (say December to May) than in the rest of the year. The rate for bills depends on world rates.

The facilities for discounting export bills are ample in the present stage of development of the country. The increase in the number of exchange banks operating in India during the last, say 15 years, has resulted in keen competition and any restrictions which may have been in existence previously are now absent.

The competition referred to above has resulted in very fine sterling exchange rates and the margin of profit to the banks must be now very small.

Q. 3 (i) (*a*) & (*b*). The warehouse accommodation at the principal ports appears ample for existing requirements.

(*c*) The present practice is a great advantage to trade and so long as it is honestly carried out with proper precautions, it is sound. But any restrictions which would have the effect of prejudicing the position of

subsequent holders in due course of the relative goods or the sale proceeds of such would be a definite danger and hindrance to trade.

(*d*) If railway receipts gave a holder in due course a legal right to the goods represented in the same way as a bill of lading it would greatly facilitate the financing of goods in transit.

Under the British Stamp Act drafts payable three days after date or sight are classed as demand drafts and stamped 1 penny. There is no such provision in the Indian Act and I think that, if drafts drawn for the finance of goods during transit between the interior and a port (or any other station) were treated as demand drafts for the purposes of stamp duty, the finance of goods in transit would be simplified. It would enable drafts to be drawn D. A. so that the consignee could obtain the railway receipt, etc., by acceptance alone. Three days would not, of course, be sufficient in India where transit may take a considerably longer period.

III.—Regulation of Banking.

Q. 1. I am in agreement with the answer of the Bombay Chamber of Commerce to this question.

Q. 2. No.

Q. 3. I am in agreement with the answer of the Bengal Chamber of Commerce to this question. I am also of opinion that banks operating in India with head offices outside India should submit annual statements showing their total Indian business.

Q. 4. In view of the fact that co-operative banks benefit by the expenditure of public funds on the co-operative departments and by exemption from income-tax, their business should be confined to co-operative banking and they should not be allowed to compete in other forms of banking with commercial banks or indigenous bankers who do not enjoy such facilities.

Q. 5. I see no objection to Government insisting upon foreign banks operating in India requiring a license, but once a bank has obtained a license it should not be possible to withdraw it so long as the bank complies with the law, and banks at present operating in India should be given a license. The licensing authority should be the Finance Department. No special regulations need be prescribed for governing the operations of such foreign banks. The conditions under which licenses would be granted would require very careful consideration and should not include any which would restrict the free supply of banking capital and the facilities which are available from this source.

Q. 6. This point has been dealt with under question 3.

Q. 7. Liquidation with expedition and advance payments to depositors in the case of failure of banks will depend entirely on the position of the bank and nature of its assets. If, after a valuation, it is found that there are available assets, similar arrangements may be made with the bank doing Government business as were carried out by the Imperial Bank of India in the case of the Alliance Bank of Simla, Ltd.

Q. 8. (i) Inexperienced general management and lack of proper supervision by the Board of Directors.

(ii) The utilising of short term deposits in long term loans or in loans which, though nominally short term, are for purposes which cannot provide repaying capacity within the periods stipulated.

The only remedies are careful selection of officers, directors and auditors, and the adherence to sound banking practice.

Q. 9. No provision appears possible. This appears to be a matter of arrangement by the proprietors (shareholders) and creditors.

Q. 10. No.

Q. 11. No.

Q. 12. It is difficult to legislate against this. A bank's best protection is a sound position and the reputation of its directors and management.

Q. 13. Income-tax, super-tax and, where chargeable, municipal tax.

Co-operative banks should, I think, be continued to be exempt from income-tax, but only so long as they undertake co-operative business and in no way compete with bankers who have not such exemption.

IV.—Banking Education.

Q. 1. There is no co-ordination of effort between banks and Universities. Under the Imperial Bank of India's scheme for the training of Indian assistants, a copy of the memorandum of information in connection with which is attached, preference is given to candidates who have obtained the degree of Bachelor of Commerce from the College of Commerce, Bombay, to graduates of a recognised University of the United Kingdom or India, to persons who have passed the examination of the Institute of Bankers in England, Scotland, Ireland or India and to those who have had previous banking experience.

Q. 2. Under the scheme referred to above, facilities for training are given to selected candidates and arrangements are made to hold examinations of the English and Indian Institutes at our branches.

Staff officers have in the past been largely recruited in England but are now to an increasing extent being promoted from the assistants trained in the bank under the above scheme as suitable men become available.

The supervising staff of the exchange banks is sent out by their Home offices as vacancies arise.

The clerical staff of the Imperial Bank of India is recruited in India. The selection is usually made from young men who have just left school.

Q. 3. Lectures on banking subjects are provided by a number of colleges and the Indian Institute of Bankers. The Indian Institute of Bankers also provides facilities for study for bank employees, and holds examinations annually. It is compulsory for all new officers to pass the examinations of the English, Scottish, Irish or Indian Institutes. The subordinate staff are encouraged to do so by the granting of an honorarium to those who pass the examinations.

Q. 4. Facilities are made available in Great Britain for banking education by banking institutes and encouragement is given to bank employees to take advantage of these facilities by banks by way of accelerated promotion and gratuities. I believe that certain banks now insist upon their

employees passing the Institute examinations within a reasonable period as a condition of service.

I am of opinion that better preliminary training can be obtained by Indians in India than in England. Young Indians of exceptional ability and possessing high qualifications would, however, benefit by special training abroad.

Q. 5. The present constitution appears suitable.

Q. 6. I am of opinion that the Institutes in the United Kingdom should be taken as a guide for the future development of the Indian Institute.

Q. 7. Indigenous bankers receive practical training in their family business.

It would be to their advantage if younger members of the indigenous banking families were encouraged to join joint stock banks. Their inherent shrewdness would be of assistance to the banks and they would benefit by training in up-to-date banking methods.

Q. 8. India is bound to develop industrially, commercially and in agriculture in the future and that will require increased banking facilities which will open up great opportunities for suitable men trained in India. The prospects of such men will depend upon themselves but there is no doubt that really good bankers will find the way to the highest posts open to them. The absence of trained men is a factor, but only one of many, to which may be attributed the slow development of banking in India.

V.—General Banking Organisation and Money Market.

Q. 1. The principal weakness in the Indian banking system is the divorce of agriculture from the commercial money market. This weakness can only be remedied by the reorganisation of the co-operative banking system on lines acceptable to the commercial banks so that they can borrow freely from the latter and/or by the "commercialising" of the indigenous banking system.

Q. 2. In my opinion the only way in which greater co-operation can be obtained is through the use by the indigenous banks of credit documents which are acceptable to the commercial banks. The usance bill should be encouraged for the finance of village bankers by shroffs, but bills with fixed dates of maturity would, I think, be unsuitable for use in the finance of the cultivators by the village bankers. The exemption to stamp duty of bills of small amounts, and the reduction in the duty on other bills, would be a step in the right direction. The demand pronote, which is acceptable to the cultivator, is not suitable for rediscount by the commercial banks as the latter cannot know from time to time the amount outstanding on it, and I can see no way of getting over this difficulty.

Q. 3. Suitable clearing facilities are available in towns where they are found necessary and are organised on the lines of the clearing houses in provincial towns in Great Britain but in all cases the position of the Imperial Bank and that of the Association of Clearing Banks should be more clearly defined.

Q. 4. No.

Q. 5. Financial panics have usually resulted from the failure of banks of importance. The answers to the questions in Part III indicate my views on the better regulation of banking.

Q. 6. (i) Misappropriation of hypothecated goods and of goods held under Trust Receipt.

Manipulation of stocks given as security whereby quality or quantity was changed.

Use of documents which in fact were not what they were understood or purported to be.

Concealment of assets in bankruptcy proceedings.

Undesirable uses of joint family system under which when convenient family property is claimed to be exempt from liability for debts incurred.

Vexatious obstruction in execution of decrees.

(ii) Generally such frauds and malpractices may be attributed more to defective business practice than to inadequacy of existing legal provisions and the bad business is due to excessive competition between banks. But it should be possible to make the criminal law more effective against breach of trust and hypothecation and to provide some protection against vexatious obstruction in execution proceedings.

Q. 7 (*a*) No.

(*b*) This is a question of free competition with which legislation should not interfere.

(*c*) I have given my views on the regulation of banking in Part III.

(*d*) The steps to be taken would depend on the nature of the emergency.

Q. 8. Attempts have been made by promoters to increase the number of banks, but owing to the many failures capital is shy. My views on the better regulation of banking are given in Part III. Contrary to opinions commonly held the yield on bank shares is small and there is I think considerable confusion in the minds of many regarding dividends and yields. Dividends may be high as the result of good management over a long term of years but in the early years of a well managed bank they will not be high enough to attract any large amount of Indian capital.

Q. 9. Agriculture being the main industry in India and bills payable on fixed dates being unsuitable for primary agricultural finance, the bill habit is not well developed. In answer to question 2, I have given my views on this point. At present most internal bills drawn in India represent money lending transactions, they are not drawn in respect of any particular business transaction in goods on the conclusion of which they are automatically paid off.

Q. 10. No. Except that so long as settlements on the exchanges are as liable to interruption and postponement as they are at present the relations cannot be what they should be.

Q. 11. There are brokers' associations in most towns of commercial importance and banks usually only recognise brokers who are members of such associations.

Q. 12. I presume this question refers to Agency Bankers such as Cox and Kings, Ltd., Thos. Cook & Son, Ltd., Grindlay & Coy., etc., who will be in a position to give a detailed reply.

Q. 13. Generally speaking banks will only provide their own godowns when the demand for them is assured.

Q. 14. The internal resources of banks can only be increased by the encouragement of the banking habit which is dependent on education, confidence, social customs and familiarity.

There should be no restrictions to the investment of foreign capital in Indian banking.

Q. 15. The Imperial Bank of India has opened 100 additional branches since the amalgamation under its agreement with the Government of India and has done everything possible under its Act to meet the requirements of the trade of India. It takes time to become accustomed to new methods of finance, but there are indications that traders and cultivators are taking increasing advantage of facilities offered, and are now more ready to give security required by the Act.

(a) The Imperial Bank of India meets requirements fully when the security is acceptable.

(b) By advances against stocks, discount of bills and the purchase and sale of T. T. and demand paper the bank finances a very large portion of crops moved.

(c) Exchange banks take from the Imperial Bank loans against authorised securities when required, and this enables them to economise considerably in their idle money.

(d) Joint stock banks generally receive the same facilities as exchange banks and certain joint stock banks have been granted cash credit facilities suitable to their requirements. Approved indigenous bankers are given bill limits within which approved bills endorsed by them are discounted; they are also granted loans on demand pro-notes bearing two names.

(e) & (f). In general the relationship of the Imperial Bank with Indian States and Provincial Governments is that of banker and customer, but in some instances assistance has been given in loan arrangements.

Q. 16. The Liquidators of the Alliance Bank of Simla were assisted. This has been the only practicable proposition.

Q. 17. No answer.

Q. 18. The relationship between the Imperial Bank, the Government of India, Public Bodies and Indian States is that of banker and customer. The bank has undertaken for the Government of India certain duties not ordinarily included in this relationship, for example, the management of the public debt, the transfer of funds for the public and the safe custody of currency chest balances, the remuneration for which is mutually arranged.

I believe it to be the predominant practice for Governments to confine their banking arrangements to one institution, and I am of opinion his is the most economical arrangement.

IMPERIAL BANK OF INDIA.

MEMORANDUM OF SCHEME FOR TRAINING INDIANS FOR SERVICE IN THE BANK.

1. The Bank is prepared on the following conditions to train Indians in practical banking with the object of fitting them to hold positions of responsibility in the Bank. The ages of the candidates should not be more than 25.

2. Applications should be made to the Secretaries and Treasurers of the Local Boards who will select the men to be trained in the various Circles.

3. Preference will be given to candidates who have obtained the degree of "Bachelor of Commerce" from the College of Commerce, Bombay, to Graduates of a recognised University of the United Kingdom or India or to persons who have passed the examination of the Institute of Bankers in England, Scotland, Ireland or India and to those who have had previous Banking experience. Others also may be selected who are highly recommended by persons well known to the Bank, but in their case they will require to satisfy the Bank as to their education, general knowledge, etc. Members of the existing staff of the Bank may also be selected and will be given the same opportunities as the others for acquiring practical knowledge.

4. Candidates will be taken on probation for three years and if, at the expiry of six months, the Bank decides that a candidate is likely to meet its requirements, he will be asked to enter into an agreement to serve the Bank as a Probationary Assistant for a further period of two-and-a-half years. If, at the expiry of this term, the Bank decides that a Probationary Assistant should be promoted he will, subject to the conditions hereafter mentioned, be promoted to the 2nd Assistant's grade and will be called upon to sign an agreement to serve the Bank for a further period of three years.

A Probationary Assistant's Agreement may, in special cases, be extended to four years but in no case shall a Probationer be kept in this probationary category for more than four years and ordinarily not more than three years. The period of Second Grade Assistants' Agreements shall be three years and thereafter shall run on unless terminated as provided hereafter.

Probationary Assistants and Assistants on the 2nd Grade shall on signing agreements deposit with the Bank in cash the sum of Rs. 1,000 for the due performance by them of the duties of their employment under their agreements. The Bank may, in lieu of a cash deposit of Rs. 1,000, accept an approved personal surety, in which case the Bank shall deduct every month 10 per cent. out of the salary of the Probationary Assistant or Assistant until the deductions amount to a sum of Rs. 1,000.

The agreements executed by Probationary Assistants and by Assistants on the 2nd grade will provide that if a Probationary Assistant or an Assistant intends to leave the Bank's service at the expiry of the period of the first three years' service inclusive of the first six months' probation before execution of the probationary agreement in the case of the former, or at the expiry of the second three years' service or at any time thereafter in the case of the latter, six months' notice in writing must be given to

the Bank. The penalty for non-fulfilment of the terms of the agreement will be the forfeiture of the Security Deposit of Rs. 1,000 or the payment of that amount by the person who executed a personal surety bond.

The Agreement will also contain a clause empowering the Members of the Local Boards to terminate the service of Probationary Assistants during the first year of service by giving them one month's salary and of Probationary Assistants thereafter, or Assistants at any time, at their discretion on giving them three months' salary.

5. During the period of probation Probationary Assistants will draw Rs. 150 per mensem rising to Rs. 250 per mensem by yearly increments of Rs. 50.

6. The training in the first instance will, if possible, be given at a Branch but the exigencies of the service may require it to be given at a Local Head Office. Probationary Assistants must undergo training and Assistants must serve the Bank wherever the Bank considers it advisable to send them.

7. The salary attaching to the Assistants, 2nd Grade, will be Rs. 300 rising to Rs. 500 by yearly increments of Rs. 50.

The conditions of entry into this grade will ordinarily be:—

(1) That candidates have served for three years as Probationary Assistants or otherwise.

(2) That they have satisfied the Bank that they have a good practical knowledge of the working of a Bank and show promise of being able to manage a staff.

(3) That they shall not advance beyond Rs. 400 until such time as they have passed Part I of the examination of the English, Scottish, Irish or Indian Institute of Bankers, London, except that, in the case of Assistants who were formerly employed by the Bank as clerks, this condition may be waived by sanction of the Central Board.

A clerk drawing pay higher than the starting pay of the Grade or of the Probationary Assistant's Grade, if promoted to one of these grades, shall come in on the next step above the pay he was drawing as a clerk but he shall be graded at the bottom of the List and shall mark time on his starting pay until his length of service on the grade entitles him to an increment.

8. An Assistant on the 2nd Grade placed in charge of an Agency of the Bank shall draw a special allowance equal to 20 per cent. of his substantive pay for the time being.

9. Promotion to the higher grades in the service when vacancies occur will depend upon the degree in which the Bank is satisfied with the Assistants, but no Second Grade Assistant shall be promoted to be a Staff Officer until he has completed the associate examination of the English, Scottish, Irish or Indian Institute of Bankers.

When a vacancy occurs in the Officer's grade the Secretary and Treasurer concerned will report regarding any Second Grade Assistants who are qualified for promotion to fill the vacancy.

10. The leave allowable to a Probationary Assistant will be fourteen days for every year's service and to an Assistant on the 2nd Grade thirty days for every year's service. Leave may not be accumulated.

11. Probationary Assistants and Assistants on the 2nd grade, shall become members of the Imperial Bank of India Employees' Provident Fund. They shall, on attaining the age of 21, also become members of the Bank's Pension and Guarantee Fund and shall abide by the rules of the above Funds. Service rendered before the age of 21, shall not be held as service for pension.

Amended, Central Board Meetings of 11th January and 12th July 1929.

No. 29.

Statement of evidence submitted by Mr. Chunilal B. Mehta, Bombay.

1. The problem of banking in India is so intimately connected, as in other countries of the world, with the larger aspects of currency, exchange and public finance, that it is impossible to divorce one from another and take a detached view of the question of banking.

2. The function of a bank is not the creation of credit but the distribution of it; and the problem in India, as it appears to me, is not the number of banks or bankers but one of the amount of credit supply and proper distribution of it. As it is, banks and bankers are now clamouring for more business; an addition of a few more joint stock banks, especially in the Presidency Towns, would lead to unhealthy competition.

3. As it is at present the credit resources of the country are determined and regulated by Government without any automatic system; credit is controlled by Government. The amount of credit supply is determined by Government deposits with the Imperial Bank, the issue of currency against trade bills and the issue of the same against securities. Since the Government of India started the policy of currency deflation Government cash balance with the Imperial Bank has gone down.

Government Balance with the Imperial Bank of India.

(Month end.) (In lakhs of Rs.)

Month.	1929-30.	1928-29.	1927-28.	1926-27.	1925-26.	1924-25.	1923-24.
Slump Season.							
April	10,09	7,14	14,54	13,06	27,09	19,82	14,83
May	8,59	6,63	11,86	14,83	28,43	20,56	12,38
June	20,65	7,90	9,81	32,30	22,26	22,01	12,54
July	13,07	6,20	15,58	36,29	24,54	32,18	29,49
August	12,44	16,92	15,74	35,45	19,62	32,06	23,12
September	20,04	5,76	12,56	20,23	9,96	25,27	15,76
Busy Trade Season.							
October	15,49	6,32	8,76	14,03	7,40	11,30	7,79
November	14,00	7,69	9,66	9,16	6,74	10,34	8,42
December	7,05	7,73	7,04	6,33	5,26	7,43	8,56
January	17,36	8,06	7,88	13,44	9,90	17,94	16,92
February	18,26	10,29	7,32	20,16	13,86	24,04	22,63
March	17,39	5,60	6,03	24,62	21,46	27,45	26,94

4. The above statement will show that the Government balance with the Imperial Bank is generally smaller during the busy crop season and that it is larger during the slump season when trade demand is necessarily small. As a matter of fact the converse of this must be found in India where the currency is inelastic and incapable of automatic expansion. Perhaps, the fact

that Government balance with the Imperial Bank does not fetch any interest may appear to be a profitable proposition to keep a small balance only. But it seems to me that the interest payments on Treasury Bills offset this advantage. Government contribute to the stringency during the crop moving season by a smaller balance. The issue of additional currency, if any, against trade bills during the season simply supplies the deficiency caused by the low Government balance and hence it cannot be regarded for practical purposes as increased credit supply. What Government should do is that their balance with the Imperial Bank during the busy season should be larger than during the slump season.

5. Ordinarily the Bank Rate is low in India during summer and monsoon months. India is the only country in the world where the annual range of interest rates is very wide. A range of 3% to 4% is quite ordinary in India, whereas such a wide range in any other country would be regarded as grave and serious.

6. Moreover, the Bank Rate in India is never raised or lowered by anything less than full one per cent. The practice of raising or lowering the rate by ½ per cent. should be followed, and an attempt should be made to make the Bank Rate to follow trade conditions and not trade conditions to follow the Bank Rate.

7. Every country in the world has certain seasonal features, but in India too much is made of it. In the case of the Bank of England or the Bank of France or the Federal Reserve Banks there is no seasonal rise and fall in the Bank Rate as we have in India. It is necessary that the Bank ate in India should not be frequently changed, and that too without sufficient reason.

8. The most tragic feature about our money market is that the Bank Rate begins to rise at the commencement of the export season and the rise continues until trade is affected adversely. There is no justification at all for seasonal rise in the Bank Rate if adequate credit is placed to fully meet the seasonal requirements. The tendency all over the world in modern times is to conquer seasonal features in matters economic, and as long as trade is healthy adequate credit resources should be found without increased cost. Attempt should be made to meet the demand rather than drive away the borrower by putting the rate high. Increasing the rate really amounts to saying that the trade will not be financed unless it is prepared to pay very high rates. I may mention also that a higher Bank Rate in every season does not reflect a satisfactory state of affairs. It is really remarkable that in France the Bank Rate remained at 3½% since January 1928 until recently, when it was lowered to 3%, although monetary conditions all over the world have been stringent. In short, I want to say that the authorities should give up the idea that seasonal monetary stringency is inevitable, and a way must be found out to fully meet the seasonal requirements without recourse to the increase in the Bank Rate. An increase in the Bank Rate does not mean that enough credit has been provided but reflects insufficiency of credit supply.

9. The Bank Rate in India has not the same functional value as the Bank Rate in other countries. A rise in the Bank of England Rate will tend to attract money to London for investment at higher rates of income. Similarly lowering of the Bank of England Rate will tend to the flow of money out of England for better investment elsewhere. A rise or fall in the Imperial Bank Rate does not result in a similar flow of money ; if at all it does anything it is insignificant. Undoubtedly higher Bank Rate helps to maintain the exchange to some extent but the effects of it on trade and industry are very detrimental.

10. The following table shows the percentage of Government deposits to other deposits in the Imperial Bank and the Bank of Japan :—

Percentage of Government Deposits to Other Deposits.

End of	Imperial Bank of India.	Bank of Japan.
December 1929	9·97	190·41
June 1929	29·10	185·12
December 1928	12·65	305·97
June 1928	11·45	270·08
December 1927	9·76	419·26
June 1927	12·42	327·27
December 1926	8·77	698·76
June 1926	43·12	677·53
December 1925	7·01	700·00
June 1925	29·68	600·97
December 1924	9·77	902·20

This shows the percentage proportion of Government deposits to other deposits.

There is no denying the fact that the Government of Japan actively help the trade and industry of that country by placing a large cash balance with the Bank of Japan ; the percentage of Government deposits to other deposits is simply astounding ; it provides ample cheap credit to the country as a whole. But in India it is otherwise.

11. The principle should be accepted that as long as we have no real gold standard which automatically supplies the credit required, Government should maintain a certain large balance free of interest and also discount trade bills from the Imperial Bank in sufficient amount and at such rates that the necessity of raising the Bank Rate above 6% in busy season may not arise. Government, if they so desire, can easily regulate the Bank Rate effectively by their balance with the Imperial Bank combined with their trade bill discount policy.

12. The present relations between the Imperial Bank and Government are all in favour of the latter. When the Presidency Banks were amalgamated into the Imperial Bank, the latter gave an undertaking to open 100 new branches. It is a matter of common knowledge that some of these branches do not earn even the establishment charges, and branches in military stations serve Government exclusively ; Government Treasury has ceased to function in places where the Imperial Bank has branches ; in other words, the cost of maintaining the Treasury has fallen upon the Imperial Bank. On the other hand there is no statutory obligation on the part of Government to maintain a minimum cash balance on which the bank can earn interest.

13. Government should not use the Currency Department for internal remittances. The existence of currency chests in all the district Treasuries serves Government only to manage their ways and means position with the smallest cash balance. There is no obligation on the part of the Currency Department to give silver rupees in exchange for notes in these district Treasuries. The abolition of currency chests in the districts will lead to bringing

in of responsible new banks in those areas to whom Government can exclusively give their internal remittance business. I would also recommend that all the Provincial Governments, District Boards and municipalities should have each its own separate cash balance, and these bodies should be permitted to keep their bank account with any approved indigenous bank, subject to certain conditions. Government deposits in private banks will tend to create greater confidence in such banks by the public, and will lead to the development of indigenous banking in India.

14. It is the city that is the wholesale distributor of credit to rural areas, and, moreover, the important money crops of India are financed by the cities through the intermediaries in the interior of the country. Therefore, the city banks should be placed in a position to command greater credit resources at cheap rates. If at the fountain head credit is starved it is but inevitable that rural areas should also starve. It is impossible to think of financing the rural areas without recourse to city banks. The term 'city banks' includes exchange banks also. The foreign exchange banks finance only the foreign trade at ports. Therefore, placing of credit resources at the disposal of the exchange banks will not serve the object of financing the rural areas.

15. The link between the city and the interior of the country is the indigenous Indian banker. In many cases such bankers are many years old with ripe experience, and their business is built up by family tradition which gradually has acquired a fame and reputation for business integrity. It ought to be recognised that such bankers are indispensable in this country, and may even serve the borrower as well as the depositor better than a joint stock bank.

16. An Indian indigenous banker is shy to advertise his business as the private bankers do in other parts of the world. While it is considered quite respectable in other countries of the world to ask for business especially that of a deposit nature, it is considered to be below dignity to do so in India. I think that Indian indigenous bankers should be educated to advertise their business. They should be given a special status by registering them, and asking them to publish periodically returns of deposits as well as loans under convenient heads so as to infuse greater confidence in the minds of the public. As it is there is nothing in the Negotiable Instruments Act to prohibit these Indian bankers to have their own cheques but in practice they do not do so. Cheques of private bankers are quite common in London and New York, and I do not see any reason why private bankers should not do the same in India. If this is adopted on a large scale I think the banking habit in India will spread quicker than by any other means. Further, it is absolutely essential that private bankers should be admitted to Imperial Bank Clearing House on much easier terms than those now required of joint-stock banks.

17. There is a vast distinction between the nature of the business done by the shroff as compared with that of a joint stock bank. A joint stock bank lends money only on full margin with some specific securities or with joint responsibility. But on the other hand the shroff comes into close contact with his clients, their nature of business, their integrity, etc., and lends money with a small margin and with single responsibility. It so happens that at times the rate of interest becomes immaterial but money has anyhow to be found to meet some immediate obligations. At such times the shroff does render greater service to his clients than a joint-stock bank could do under similar circumstances. Hence the supreme importance of maintaining the shroffs as a class by giving them necessary assistance as may be required from time to time.

18. I quite agree that industrial banks can, if they are handled properly, do to a great extent to promote the industrial progress in India. But it is an axiomatic truth that the banks should finance those undertakings which on their very face would fetch a better income than the interest amount on loans given to them. The creation of industrial banks without the industry itself being well protected so as to earn a reasonable profit, would be to put the cart before the horse.

19. Generally speaking, the public debt of India or at any rate the amount invested in railways represents the collective savings of the people. If the railways had been the properties of Indian joint stock companies instead of being Government properties most certainly a number of industrial banks would have come into existence to finance such undertakings. In America and on the Continent railways are generally financed by such banks, and considerable scope is provided for bank investments. Without such scope of investment, the industrial banks in India have not progressed at all so far.

20. The Chinese Nationalist Government decided to create the Manufacturers Bank of China, Ltd., to finance industrial enterprises. Since the end of 1929 the bank has begun to function. The Manufacturers Bank of China is the instrument by which the National Government hopes and intends to play a creative part in the early growth of commerce, industry and manufacture. We in India can very well take a lesson from China in this matter.

No. 30.

Statement of evidence submitted by Professor B. Mukherjee, Reader in Economics and Sociology, University of Lucknow.

NOTE.

I have attempted to answer only a limited number of the Committee's questions—such as I felt myself competent to discuss. I have treated them in a connected and systematic way—taking each problem by itself—and I have attempted to give my ideas grouped together, under different heads in a logical way as the inter-related parts of an organic whole. In doing so, I have found that a particular point in my note will answer more than one question in the different parts of the questionnaire. In all such cases, the general and logical sequence in my note is maintained but on the margin, I have indicated the exact number of the question or questions to which a particular part of my note may give the answer.

PART I.

INDUSTRIAL BANKS.

[Item 1 of the questionnaire.]

The necessity of industrial banks in India.—It is undeniable that the ordinary commercial banks have not served the industrial needs of the country. They have not financed industries largely. They cannot possibly do it, having regard to the nature of their own business and the needs of the industries. The financial facilities, which our industries need and which they now so greatly lack, can best be provided by industrial banks alone. This was pointed out long ago by the Industrial Commission in 1918 but unfortunately we have had little progress in the line. The whole question of providing India with industrial banks has been woefully neglected for years and years. The industrial banks are meant to finance industries, while the commercial banks generally finance trade. The commercial banks make advances for short periods only—say 3, 6 or 12 months at the utmost—on suitable security to traders and merchants. But our industries require long period loans which no commercial bank can afford to grant. The greater part of their working capital comes from current deposits which they may be called upon to repay at any moment. Hence, they cannot possibly undertake the risk of long period loans and thereby convert a large part of their resources into frozen assets. The Imperial Bank, by its constitution, cannot lend money for more than six months at the most. The difficulties of industrial finance are too great and the problem is too complex to be handled by them. The ordinary commercial banks have neither the means nor the ability to assess the value of industrial machinery and buildings. They cannot judge the value of any concession regarding exploitation of resources or monopoly of service. They cannot enter deeply into contracts and have no opportunities of assessing the good-will of a business. The prospects of industries, the cost of manufacture, the supply of raw materials, the problems of labour supply and marketing, railway freights, the risks of competition, the duration and the effects of taxes, tariffs, bounties and subsidies at home or abroad, the complexities of technical equipment and

[Item (i), Questions 1 and 4.]

management— all these are vital factors on which the question of advances depend : but all these are factors on which a commercial bank is incompetent to judge and, therefore, unwilling to take risks. Without the necessary technical knowledge of the industries concerned, commercial banks naturally refuse to undertake the risk of financing them. For all these reasons, we badly need industrial banks to finance our industries. Their nature, constitution and equipment must be different from the ordinary banks.*

History of Industrial Banks in India.—A large number of industrial banks had been started in India but most of them met with disaster sooner or later. The People's Bank of India started as an ordinary commercial bank but it went into industrial finance and thereby locked up about Rs. 50 lakhs out of its working capital of Rs. 80 lakhs. The result was disastrous. The Tata Industrial Bank at one time rose to dizzy heights of prosperity—its shares soared in the stock exchange. It floated a number of industrial concerns but ultimately they all failed and the Tata Bank itself had to be absorbed in the Central Bank of India. The war-end boom led to the formation of a large number of such banks but most of them are gone. The Calcutta Industrial Bank (capital 2 crores) ended after 2 years. The Karmani Industrial Bank (10 crores) floated steamship companies and other industrial concerns but they all went to pieces. The Indian Industrial Bank (5 crores) did ordinary banking business for some time and then it ceased to exist. The same story was repeated in the other parts of India as well.

The organisation of an Industrial Bank.—It is rather difficult to frame a definite scheme for an industrial bank because there are so many factors upon which it is necessary to arrive at a decision, before any scheme can be framed. I would still venture to indicate some of my broad ideas about it.

[Item (i), Question 4.] An Indian Industrial Bank should be established in Calcutta with branches in Bombay, Nagpur, Cawnpur, Ahmedabad, Karachi, Madras and Rangoon. It should start on a modest scale—with a capital of say one crore—to be increased later on as it shows signs of stability and success. Government must give all reasonable assistance to it by—

(*a*) giving a guarantee of interest at, say, 5 p. c. for a definite [Item (i), Question 4.] period—say 7 years—after which it may be revised and lowered for another period of, say, 8 years so that the State will guarantee the interest for a total period of 15 years,

(*b*) providing the services of technical and technological experts,

(*c*) in return for these concessions, Government must have the right of nominating at least 2, if possible 3, persons on the directorate,

(*d*) loans beyond, say, Rs. 50,000 to any one concern, must be re- [Item (i), Question 4.] ported to Government ; Government shall have the right of veto if it thinks such a step necessary. But this right of veto shall be limited to the period of the Government guarantee only—after which, the guarantee and the right of veto shall cease together.

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* In England, recently, the Bank of England has framed an ultra-modern scheme [Item (i) Question 4.] for promoting industries. On the one hand, the Securities Management Trust has been formed under the auspices of the Bank of England with an expert Board to assist in formulating plans for industrial reorganisation ; on the other hand, the bank has identified itself with the United Dominions Trust which finances the hire purchase of necessary products.

The conditions of its success.—The bank, to be effective, must not suffer from any initial infirmity of inadequate capital. Under-capitalisation would be a serious handicap and a grave mistake. It must have capital sufficient for the needs which it will be called upon to serve. If necessary, the State must come to its aid, as in Japan and Germany, to give it the necessary strength and stability.

Secondly, its loans should be limited to a definite period—say, 3 years at the first instance—at the end of which if an expert enquiry reveals real and substantial progress, the loans can be renewed for a further term of say, 3 years.

[Item (i), Question 4.]

Thirdly, it must have a full equipment of technical and industrial experts who can thoroughly investigate and judge of the prospects of any industrial concern. The industrial bank cannot shoulder nebulous risks. Before it undertakes the finance of any particular industry it must be satisfied by expert enquiry that it has a good chance of success. It must have a wide range of technical advisers, able to advise on different industries.

Fourthly, the industrial bank must have the right of nominating one or two of its own men on the directorate of the industrial concerns, seeking its assistance.

Fifthly, the bank must not undertake any other business besides the financing of industries. Current accounts will not be permitted. Fixed deposits for long periods only—not less than 2 years—can only be accepted. Ordinary banking business would introduce elements of unstable equilibrium in its business and must, therefore, be avoided.

The vital point is that the assistance to be given to the industries must be for a definite period only—until they are sufficiently stabilised and are able to command capital and credit in the ordinary way from the money market.

PART II.

[Item (iii) of Question 5.]

The control of foreign banks.—It is hardly necessary, now, to argue the theoretical necessity of retaining some control on the foreign banks. The question has so often been discussed, within recent years, in the press and in the Legislative Assembly that it is hardly necessary for us now to argue *de novo* the economic justification of controlling the operations of foreign capital and foreign banks in India. As regards foreign capital, the External Capital Committee of 1925 discussed the question in great detail. My views on the question were submitted in a note I sent to that Committee, from which Sir Basil Blackett honoured me by making a long quotation in the text of the Committee's report. The theoretical necessity of controlling foreign finance is now admitted in all countries. The Cuncliffe Committee in England suggested that the question of protecting British banks from the encroachments of foreign finance should be carefully considered. In America, branches of foreign banks are governed by State banking laws. In many cases, the national banks are protected against the competition of foreign banks, *e.g.*, foreign banks are not allowed to accept deposits in some places. Restrictions are imposed on the amount and character of their business. In Japan, foreign banks can only work under a special license, in which any condition can be imposed before they are allowed to start operations. Government can curtail its scope, forbid deposits, disallow any branch, impose any taxation and call for any statement from them.

The industrial banks of Japan import foreign capital for the country but without the foreign domination. The central idea in all these restrictions is to prevent unfair competition with the national banks.

The need for control.—Before I proceed further, let me recapitulate briefly some of the arguments urged in justification of such control. The main points may be briefly stated below:—

[Item (*iii*), Question 2.]

(1) The special privileges enjoyed by the foreign exchange banks—which I have discussed elsewhere and to which I invite reference—constitute the strongest justification for control.

(2) It is said that the foreign exchange banks discriminate between the European and the Indian merchants. There is, no doubt, a feeling that the business offered by Indians is not considered on its merits but from the view point of possible loss to European interests.* How far this is true, I have no means to judge. Only those who are engaged in active business can speak with authority about it. The exchange banks finance foreign trade and as foreign trade is largely in European hands it is only natural that a large part of their advances will go to the Europeans. The direct evidence of Indian merchants who have been either fairly or unfairly treated by exchange banks will be of great assistance and, no doubt, the Banking Committee will get an opportunity of testing such evidence. The point is worthy of careful consideration and an authoritative finding by them will clear the ground considerably.

[Item (ii), Question 1.]

(3) The charge is often made that exchange banks manipulate rates to the detriment of merchants. It is really difficult to agree with this view. Regarding the rupee—sterling exchange, I do not think the rates charged are either excessive or unfair. Having regard to the number of banks operating and the keen competition between them, the rates are competitive. A particular class has the monopoly of foreign exchange business, but within that class, there is free competition.

[Item (ii), Question 2.]

(4) For a long time, the exchange banks had a practical monopoly of deposits in this country. Backed by cheap finance from abroad, they have built up large reserves and are now safely entrenched behind an impregnable position. They can now afford to decoy deposits by offering tempting terms and by various other measures. At present, they monopolise the foreign exchange business. Even the Imperial Bank was warned off and compelled to go out of the field in order to save their vested rights. What does India get as *quid pro quo*?

(5) It is urged that the exchange banks, instead of importing funds from abroad to develop Indian trade, utilise their Indian deposits for financing trade abroad. The total borrowings of exchange banks in India came to Rs. 72 crores in 1926 as against Rs. 63 crores of the joint stock banks. The suspicion was confirmed recently by a speech made by Mr. T. W.

*Indian Finance (18th January 1930, page 23).

Beaumont—Pease, the Chairman of the Lloyd's Bank in London, when he said that "no portion of our deposits at home is used for the purpose of making loans in India".

(6) We want foreign capital but not foreign control. The exchange banks bring a limited amount of foreign capital and vast amount of foreign control, that is much more than what we bargain for. Hence arises a clear need of some control over them.

[Item (v), Question 14.]

(7) The foreign banks have never been friendly to the Indian banks. Seldom have they come to our aid in times of difficulty. They always stand apart and look on with majestic indifference, when the Indian banks are in deep distress. They derive enormous advantages and profits out of India: what do they give us in return?

(8) Their unfriendly attitude is due largely to the foreign personnel, foreign management and foreign control. Their superior staff is all foreign — "No Indian need apply". Their policy is dictated by foreign boards or directorates, and, no wonder, Indian interests go to the wall. With their superior staff, all foreign, Indians get no chance either of employment or of training. And yet, while the Indians are practically deprived of all opportunities of training, there is no limit to the homilies we hear, in season and out of season, on our want of ability, honesty and efficiency.

(9) The safety of Indian depositors requires a certain amount of control.

(10) As a result of the exchange banks controlling the foreign exchange business, the greater part of the export trade and a large part of the import trade are in non-Indian hands.

(11) There is a growing feeling in the country that Indians must take their proper place in the banking organization of the country. This can only be done by some control on the foreign banks to be exercised in the interest of the Indians.

The form of control.—The following forms can be suggested:—

(1) Foreign banks seeking to operate in India must be registered with a rupee capital,

(2) with a majority of Indian holding in the shares,

(3) with a majority of Indian directors.

(4) The staff must be Indianised as much as possible. A minimum standard of Indianisation must be enforced.

(5) They must have a license before they begin work and the license would be granted only after a scrutiny of their capital, the share of Indians in the capital, the number of Indians on the directorate, etc. The license will regulate the conditions on which they can accept deposits, the nature and volume of business they can undertake, the number of branches they can open and the areas where they can do it. It will also lay down the periodical statements and informations they must furnish, the number of Indians they must retain on the staff, the number of Indians they must train, etc. The license is to

be granted by a Committee consisting of the Finance Member as chairman, two representatives of the Legislative Assembly, one representative of the exchange banks and one representative of the joint stock banks.

(6) All banks should be compelled to take a certain number of Indians for training as apprentices.

(7) In all future transfers of shares in existing foreign banks, Indians must have a right of pre-emption.

(8) They should be compelled to publish half-yearly statements of their assets and liabilities.

PART III.

Banking Education.

[Answers to item (iv) of the questionnaire.]

Importance of banking education.—The importance of a sound system of banking education for the safety of banking development in a country can hardly be over-estimated. Most of the banking disasters that have occurred in India were largely—I do not say wholly—due to the want of a real banking training in those who controlled it. A sound system of banking education will help us to avoid or overcome the dangers and difficulties of amateur banking in India. Banking is a very highly complicated business, and clearly, there is no room for amateurs in it. But unfortunately, Indian banking has suffered terribly in the past from the dangers of amateur control. The blind led the blind and, no wonder, we so often came to the ditch.

The supply of trained bankers is the *sine qua non* of a successful banking development in the country. This can come only in two ways, *viz.*—

(1) there must be facilities for a first class theoretical education in banking for those who may want it, and

(2) this theoretical education must be supplemented by actual experience of banking work in recognised and well conducted banks. This practical experience is really more important than even the theoretical training. The many first class banks that we have in our midst could have supplied India—had they really cared—with a large body of well-trained competent staff, with honourable traditions of prudent and conservative banking behind them, who would have been equal to all demands that might be made on them. But unfortunately, the higher staff of all such banks has always been foreign: the children of the soil had little scope or opportunity of either getting into the mysteries of banking or of rising step by step from the lowest to the highest grades of responsibility. This is one of our greatest grievances against the European banks. The work of control, direction and policy, they always reserved in their own hands—it was their *sanctum sanctorum* where no Indian need attempt to enter. The Indian could only aspire to be the ledger-keeper, despatcher, or the token clerk on the princely salaries of Rs. 25 to Rs. 100 p. m. while the raw Scotch, English or Irish recruit, with no previous theoretical training, could at once be taken in the officer's grade and, after a few years of

practical training, they could, as a matter of fact get on splendidly with their work. After all, efficiency is very largely a factor of training and experience. It is not the mystic possession of the favoured few. If the Scotch or the Irish recruit could succeed, the Indian could succeed just as well if he had similar facilities. His chances of success were even greater because he was familiar with the language and customs of the people. Thus, in this way, these foreign banks have for long years, pursued a definitely anti-social—even anti-national policy and no wonder that the country is now crying aloud for remedies.

[Item (iv), Question 1.]

Facilities for training.—The questionnaire really wants information as to the facilities for theoretical training. I have direct personal knowledge of only 2 Indian Universities—*viz.*—Calcutta and Lucknow. The Calcutta University was the pioneer in providing facilities for an advanced study of banking and currency problems in India. As early as 1906, the Calcutta University thoroughly recast its regulations under which banking and currency were recognised as special subjects of a highly specialized M. A. degree in economics. There are two papers with 100 marks for each and the books recommended for study are selected with particular regard to the advanced nature of the subjects covered. Some idea can be gathered about the weight of the course from the list of text books for the M. A. examination of 1929. They are as follows :—

Papers VI and VII.—(i) The History, Theory and Present System of Banking and Currency.

Conant—Principles of Money and Banking.

Fisher—Purchasing Power of Money.

Dunbar—History and Theory of Banking.

Burton—Commercial Crises.

Withers—Stocks and Shares.

Keynes—A tract on Monetary Reform.

Gregory—Return to Gold.

Shirras—Indian Finance and Banking.

Rau—Present Day Banking in India.

Keynes—Indian Currency and Finance.

Sinha—Early European Banking in India.

Indian Paper Currency Act.

Report of the Controller of Currency (latest issue).

Hilton Young Commission Report on Indian Currency.

They have also instituted a B. Com. degree which covers accountancy and auditing, banking and currency, business organisation, inland and foreign trade, transport and commercial law. This is followed by the M. A. degree in commerce which gives a still higher form of training in the subjects already mentioned.

In the University of Lucknow, we have a special paper on currency and banking in the M. A. (previous) economics course. There is also a paper on

public economics which covers a large part of banking and currency. The list of text-books is given below :—

Paper IV.—Special Paper :

(*a*) *Currency and Banking* :—

Withers : Meaning of Money.

Withers : Stocks and Shares.

Spalding : Eastern Exchange.

Wen Piu We : Currency in China.

Keynes : Indian Currency and Finance.

Scott : Money and Banking.

Nicholson : Inflation.

Kemmerer : Modern Currency Reforms.

Proceedings of the Brussels Financial Conference.

(*b*) *Public Economics* :—

Dalton : Public Finance.

B. R. Ambedkar : The Evolution of Provincial Finance in British India.

Report of the Indian Taxation Enquiry Committee, 1926.

Keynes : Indian Currency and Finance.

Cassel : Money and Foreign Exchange after 1914.

Report of the Royal Commission on Indian Currency and Exchange, 1926.

Coyajee : Indian Fiscal Problem.

Banerjee : Fiscal Policy in India.

Report of the Indian Tariff Board regarding grant of protection to the Steel Industry.

Ambedkar : The Problem of the Rupee.

In our Faculty of Commerce, we give advanced teaching in banking. We have two papers on banking in the B. Com. (previous) and two papers on advanced banking in the B. Com. (final). To convey an accurate idea as to the scope of our B. Com. papers, I send herewith, as appendix to my note, the following papers :—

(1) The syllabus laid down and the list of text-books recommended for the papers.

(2) A set of the questions framed for the B. Com. examination of 1930*

(1) These questions include :—

(*i*) *Previous* (*a*) Accounting and Auditing—2 papers.
(*b*) Banking—2 papers.

(*ii*) *Final* (*a*) Accounting and Auditing—2 papers.
(*b*) Banking—2 papers.
(*c*) International Trade and Foreign Exchange—1 paper.

These papers will convey an accurate information as to the scope and depth of our courses.

The Government of Bombay started the Sydenham College of Commerce in Bombay some years ago which also gives a high specialised training.

*Not printed.

The Government Commercial Institute in Calcutta also imparts education in banking by evening classes. The Universities of Allahabad, Bombay and the Punjab have also instituted commerce degrees and they all provide for regular instruction in banking and currency. Besides that, allied subjects like accounting, auditing, economics, co-operation, international trade and foreign exchange, public finance, statistics, mercantile law, company law and public administration have also to be learnt and are taught in these Universities by highly trained staff. There is also a large number of recognised and unrecognized private schools, but the teaching imparted in them is not—it cannot possibly be—so highly specialised as that imparted in the Universities.

The theoretical training given in these Universities is neither recognised by the banks nor supplemented by practical experience in them. There is a great lack of co-ordination between the two and this leads to a great leakage and waste of efforts. A large number of our University graduates can, with a little practical training in the banks, do splendidly as officers but unfortunately, the two systems run in such water-tight compartments that there is no conduit to inter-connect the two and thereby maximise the advantage and efficiency of both. There is no system of recruiting probationers in banks from our trained graduates. Whether this lack of co-ordination is accidental or intentional, I have no knowledge, but I think the defect has continued far too long and it is time the system was thoroughly overhauled and improved.

[Item (iv), Question 3.]

[Item (iv), Question 8.]

The banks themselves provide no facilities for training students, though it would be a very great advantage to them if they do so. The Tata Bank did it for some time but it did not live long to continue it. It became merged with the Central Bank of India and I do not know if the system continues even now. Banks really ought to go further and send abroad selected members of the staff who have already given promise of ability and honest work for higher studies in the subject. The banks themselves must be protected in such cases by an agreement under which the man sent abroad must undertake to serve the bank on return for a minimum period of say 5 years on the same pay and status before he can move elsewhere. Without this protection, very few banks would care to train experts abroad for the possible benefit of their rivals in business.

[Questions 2 and 4.]

[Item (iv), Question 4.]

Undoubtedly, the very slow development of banking in India—specially branch banking—is due largely to the absence of a sufficient number of trained men. The local man would be much cheaper than the imported man and the cost of running branches with highly paid imported staff must necessarily be very much higher than the cost of running them by local men. It would be interesting—if it were possible—to know how the recent branches of the Imperial Bank in small towns stand as regards the cost of running them. What is the ratio of cost to the total volume of say, deposits or loans or of both combined? There would be an additional advantage in local men—and this is a very important factor in a business, where the personal equation counts for so much—that they would know the language, customs and habits of the people and can deal with them with far greater chances of success and can come into far closer touch than any Tom, Dick or Harry can possibly do.

[Question 8.]

[Item (v), Question 7.]

PART IV.

[Answers to item v of the questionnaire.]

Chief defects of our banking system.—These may be briefly described as follows':—

(1) Want of a Central National Reserve Bank to co-ordinate the entire banking activities and resources of India.

(2) Inelasticity of the banking sytsem, inasmuch as the resources of banks do not easily adjust themselves to fluctuations in the trade demand for accommodation.

(3) There is no discount market in India by which a merchant can hold his bills till maturity or discount them before they are payable. There is really no money market in India.

(4) No provision for industrial finance.

(5) The banking system is not one organic whole but is made up of dis-similar, unconnected and sometimes mutually hostile parts. This explains why organised banking in India finds it rather difficult to penetrate into the rural parts of the country.

(6) The inadequate number of banks, as compared with the vast population, area and extent, trade and industries of the country. One-sixth of the world's population living in India are served by about 800 banks only. In addition there are about 65,000 small co-operative credit societies but their scope is so limited that for our present argument we can leave them aside. From this serious inadequacy the following defects follow as inevitable results :—

(i) High rates for money.

(ii) Inadequate facilities for the growth of capital. There is a vast amount of frozen wealth which could do wonders if it could be cured of its age long paralysis.

(iii) The want of an investment habit in the people.

(iv) Difficulties in moving money from place to place. Movement of funds is always costly and difficult. Hence it is a hindrance in trade. An increase in banking facilities would cheapen remittance.

(7) Want of co-operation between the different parts of the banking system. They almost live in water-tight compartments.

(8) Excessive control and interference of Government in the whole field of banking and currency due to—

(i) Government's control over currency and currency policy.

(ii) Government's control over the Imperial Bank.

(iii) Government's vast balances in the Imperial Bank and, therefore, Government's indirect control over the Bank Rate.

(iv) Government's control over public loans.

(9) Wide and frequent fluctuations in the Bank Rate.

(10) Marked disparity between the Bank Rate and the money market rate.

Special privileges of the Imperial Bank.—This is an important feature of our banking system. The Imperial Bank is a hybrid institution. As an ordinary commercial bank, it has private shareholders and it competes in business with all other banks for dividends. It is regarded as the Government's Bank and it has some functions of a central banking character. The bank does Treasury work for Government wherever it has got its branches and it manages the public debt. It negotiates Government loans in India and manages the rupee debt held in London. It is the Bankers' Bank and all leading banks in India keep their accounts with it. It manages the clearing houses in all the big cities of India. On the other hand, there are certain restrictions on its freedom. These restrictions are already stated in full in the questionnaire issued by the Committee and there is no need of repeating them here. Its connection with Government makes a certain amount of Government control necessary and inevitable. Government can issue instructions to the bank on any vital matter of financial policy or safety. They appoint 4 Governors to the Central Board and also appoint the Managing Governors. They can call for any information or document. They can appoint their own auditors and examine the position of the bank.

[Item (v), Questions 1 and 17.]

Some of the special privileges enjoyed by the Imperial Bank are :—

(*a*) The Central and all Provincial Governments and most of the Native States place enormous funds at the disposal of the Imperial Bank. This Government patronage gives it a good deal of prestige and stability.

(*b*) Local bodies, port trusts, railways, municipalities, Improvement Trusts, Universities and all other statutory or trustee authorities keep large sums of money, free of interest or at nominal rates of interest, with the Imperial Bank.

(*c*) Thus the Imperial Bank, on account of its first rate credit which it gets as a result of (*a*) and (*b*) above, attracts deposits to a much greater extent than the other joint stock banks.

(*d*) With the aid of large volumes of interest free Government and semi-public balances, it can offer the most alluring terms to businessmen, which the Indian banks with their limited resources can never hope to offer.

(*e*) It has the use of currency chest at various centres.

(*f*) The Imperial Bank of India is registered under a special Act of the Legislature. This special constitution adds a special prestige and offers a special basis of stability. It is regarded as the Government's Bank. People throughout the country have an idea that the whole strength of the Goverment of India is standing solidly behind it.

(*g*) The original idea in 1920 was to make the Imperial Bank ultimately the Central Bank of India. The anticipations of 1920 have, however, gone deroute. Most of the privileges conferred upon it were granted in view of its ultimate reconstitution as a Reserve Bank of India. While those anticipations are nowhere near about fulfilment, while the Imperial Bank has been practically relieved of its obligations as a Central Bank, it still lies safely entrenched behind its old privileges relating to a Central Bank. It has all the prestige of a Central Bank which in fact it is not and does not really want to be. It has all the prestige of a State

Bank and without discharging the functions of a Central Bank, it competes—unlike central banks in other civilised countries—with private banking in almost every line except, of course, the exchange business.

The special privileges of the exchange banks.—Next to those of the Imperial Bank, the special privileges of the exchange banks also constitute an important feature of our banking system. These privileges are as follows :—

[Item (iii), Questions 4 and 5 and item (v), Question 1.]

(1) The foreign exchange business is practically monopolised by them. In 1920, when the Imperial Bank of India Act was passed, Government surrendered to the clamour of the exchange banks, and restrictions were accordingly placed on the Imperial Bank so that it was not permitted to compete in or deal with foreign exchange business. The large volume of Government funds kept with the Imperial Bank, the necessity of precluding the Imperial Bank from all risky business, the need of keeping India's capital in purely Indian business within the country—all these were responsible for giving the exchange banks a clear field in exchange business. But whatever may be the reason, the fact remains that they get this monopoly of business.

(2) There are no restrictions against the exchange banks opening their branches or borrowing money from the public. With their large capitals, large reserves and prestige due to long business, they are in a much better position to draw deposits than the poor Indian banks.

[Item (iii), Question 2.]

(3) Unlike joint stock banks registered in India, they are exempted from furnishing yearly statements of their working in India. No account of their transactions in India is available.

The Indian joint stock banks.—The Indian banks, in spite of their many defects and a still greater number of difficulties, have so far done wonderfully well. The "Big Five" amongst them are the Central Bank of India, the Bank of India, the Allahabad Bank, the Punjab National Bank and the Bank of Baroda. These have shown considerable success and strength. They have distinguished themselves greatly by their solid achievements and patient work. As regards personal integrity and honesty, most of the Indian banks have stood the test very well. Even some of the banks which unfortunately failed ultimately paid their creditors in full. They failed, not because they were not solvent but because of other reasons, *e.g.*, the extreme nervousness of the Indian depositors, the want of mutual trust and confidence among the banks themselves, the failure to lend support to each other in times of panic or emergencies—all these contributed heavily against them.

[Item (v), Question 1.]

Defects of the Indian joint stock banks.—The Indian banks lack initiative. They are, in some cases, pale and weak imitations of the Western banks, without their originality or *esprit-de-corps* standing in between the indigenous banker on the one hand and the European banks on the other, they have neither the economy of the one nor the efficiency of the other. In the cities they have to compete with big European banks ; in the villages they have to fight the indigenous banker. In both places they have to take a lot of beating.

Mutual jealousy and suspicion and the absence of any cohesion or cordiality amongst them are only too patent. There is an unfortunate lack of specialisation in different kinds of business and, in addition, most of them

have to suffer from the evils of under-capitalisation. Amateur control by inexperienced managers is, in some cases, a serious defect of Indian banks. I have discussed it in detail elsewhere. A double dose of banking and non-banking business carried on together is always risky and, more often than not, it leads to disaster. The Indian banks have in some cases suffered from such *mesalliance* in the past.

The difficulties of the Indian joint stock banks.—The chief difficulties [Item (iii), Question 8.] which they have to face are as follows :—

(1) Seldom has Government felt, that it has a duty to the banking organisation of the country. As a writer in the *Indian Finance** very ably points out " Either the banks suffered from a dishonest and inefficient management or they were being sent to an ill-deserved doom by an ignorant and unduly suspicious public. If the former were true, it was for Government to undertake special legislation to ensure the proper administration of joint stock banks, by devising a machinery for State audit and supervision, such as was adopted by some of the foreign nations at about the same time. Or it should have attempted to help the banks to weather the storm of ill-deserved suspicion ". But, " Government preferred to stand aloof and all that we had was a series of homilies on integrity and efficiency ". And yet, Government has a direct and substantial financial interest in the multiplication of sound banks in India because—

(a) India is awfully underbanked.

(b) The more of them, the greater we have of wealth and capital, and economic prosperity of the country and, therefore, the greater would be the taxable capacity of the people.

(c) Banks and the insurance companies are the largest purchasers and holders of Government securities.

(2) The competition of Government is a serious factor with them. Government offers alluring terms to the investors through its Treasury Bills and postal cash certificates and it takes away the cream of deposits. This is affecting the power of the banks to draw deposits. They have to sit still in the face of the decoy terms of Government. The postal cash certificates have succeeded wonderfully in drawing out for investment the small savings of small people. As such, they are a potent factor in the creation of capital and the promotion of prosperity in the country. Consequently, it would be preposterous—it would be sheer madness—to suggest that they should be discontinued. But at the same time, it is undeniable that the institution of these cash certificates has seriously affected the vested interests of the Indian banks and the indigenous bankers. It is only fair that they should receive some compensation for the loss. These cash certificates yield over 5 per cent. compound interest for the full period of 5 years. This is much higher than what the banks or the indigenous bankers can afford to give. Thus the cash certificates have reduced their resources and thereby increased to some extent the cost of credit to the general public. But, at the same time, I am afraid, this point—while it is true to some extent—is very much exaggerated. While it may be true, to some extent, that cash certificates have

*January 18, 1930, page 28.

affected their resources, it is equally true that they have brought to light and have tapped a large part of the resources which were formerly invisible on account of the hoarding habits of the people.

[Item (v), Question 14.] Cash certificates have tapped new and invisible resources far more than they have transferred old and existing ones. Still, we must admit that some loss has been caused to the Indian and indigenous bankers and some compensation is due to them. One way to compensate them would be by keeping a portion of the Government's cash balances with other approved banks, besides the Imperial Bank.

(3) Indian banks suffer on account of the inferiority complex of the Indians themselves. The Indian depositor is always nervous when he has to deal with an Indian bank. A certain amount of undeserved suspicion is always there. In all such cases, the good banks pay for the folly of the bad ones. The recent disaster in the Bengal National Bank and the litigation it gave rise to, have left a very unfortunate impression on the minds of the public. As a result of this and similar incidents, all Indian banks suffer through the nervousness of the depositors. Much of it is totally unjustified—but it is there. We cannot shut our eyes and jump over it.

(4) The unfair competition of the Imperial Bank. I have already

[Item (iii), Question 2.] discussed the special privileges of the Imperial Bank. These privileges in most cases act severely against the Indian banks. For instance in 1920, when the Imperial Bank of India Act was passed, Government, at the instance of the exchange banks, took care to protect the latter from the competition of the former, but unfortunately nothing was done to safeguard the interests of the indigenous and joint stock banks and to protect them from the competition of the Imperial Bank. Nobody cared for their interests. It seemed to be the unwanted child in the Indian banking family. The Imperial Bank was required by law to open at least 100 new branches by January 1926. This obligation was discharged by opening 102 new branches by March 31st, 1926. But most of these branches have played havoc with the Indian joint stock banks. They were opened at small places where the Indian banks had gone first long ago, and had undertaken the risks of the pioneer. They had developed those places, fostered the habits of banking and investment amongst ordinary people and when they were just hoping to reap the advantages for themselves, the Imperial Bank, backed by the powerful support of law and Government, stepped in and deprived them of their legitimate dues. Most of these places are small and there is business for one—but not for two. It is now a serious problem with the joint stock banks. The Imperial Bank has practically threatened to oust them from the field and thereby it has jeopardised the entire development of the branch banking system in India. The joint stock banks are no longer keen on developing new fields because they feel that sooner or later the Imperial Bank would step in, to wash them out of the countryside. The Imperial Bank ought to function merely as a Central Bank and thus save the joint stock banks from its privileged, predatory, unequal and unfair competition. It should

not be allowed to take away the cream of business from the other banks by the use of its statutory obligations.

(5) The unfair competition of the exchange banks. I have already discussed it in detail elsewhere. I need not discuss it over again.

[Item (iii), Question 2.]

(6) The currency policy of Government with its continued deflation has seriously affected their position. It has affected not merely their cash balances but also the ratio of cash to deposits.

(7) The deterioration of Government securities and the wide fluctuations in their prices have gone a great way in pushing them down the ditch. Government paper offers practically the only form of liquid security available for the Indian banks. The exchange banks are less dependent on it because the greater part of their money is invested in self-liquidating commercial bills with their head offices in foreign countries, they can also invest their money in stabler gilt-edged securities abroad. The value and yield of Government paper in India are of fundamental importance for the safety and prosperity of the Indian banks. But Government paper yields a low rate of interest and is thus a source of loss to the banks. Besides, the dangers of depreciation and fluctuations in the prices of Government securities have to be faced, and the recent depreciation has caused serious losses to them. The question was raised recently in the Council of State (11th March 1930) when Government was strongly urged to adopt measures for preventing any further slump in Government securities.

With so many handicaps and difficulties standing in the way of our joint stock banks, no wonder the infantile mortality in their case in India is so high. The wonder is that it is not even higher.

Reforms suggested for joint stock banks.—I now pass on to consider certain suggestions which if adopted, will go a great way in improving the position of the banks. These are :—

[Item (iii), Question 2.]

(1) A definite and minimum standard of qualification should be laid down for the manager of a bank. Too often, inexperienced amateurs undertake the highly complicated and risky business of managing a bank. The result is almost always a disaster. We must get rid of the tremendous defect of amateur banking in India. The possession of recognised University degrees or diplomas plus a minimum period of work in a recognised bank should always be enforced. Sound banking owes far more to honest and efficient bankers than to legislation, rules and regulations. There is no room for amateurs in this work.

(2) Each bank should show the name of its manager in every possible place—in its rules, terms of business, its pass books, its balance sheet, its newspaper advertisements, etc., for the information of the public. They must know fully and clearly beforehand, about the man whom they are trusting with their money.

(3) Some limits are desirable, at least for the first few years of a bank's life, on the amount of advances on clean credit and on immovable properties. The amount of such advances should be limited to a certain safe percentage of its paid-up capital.

(4) Under-capitalisation is as great an evil as over-capitalisation. But there are grave practical difficulties in laying down a minimum capital standard. A large number of banking disasters have been due to inadequate capital and insufficient resources and we must provide for such cases. A good way to do it would be to insist that no bank can begin business until at least 33 per cent. of its capital is fully paid-up.

(5) We must insist on a rigid and complete separation of the purely banking from any other kind of business or trade. A bank must not be allowed to do non-banking business.

[Item (iii), Question 2.]

(6) Joint stock banks should be compelled to issue their balance sheets regularly—say once a fortnight.

(7) The balance sheet itself should be simple so that the man who runs may read and understand.

(8) All banks to be audited by independent and recognized auditors who shall also have the right of inspection at any time and whose duty it shall be to make regular investigations, say, once in 6 months. The American system of State audit, in which the Comptroller is supplied with periodical statements and has the right to call for any information, may be enforced by the levy of a small audit-fee from the banks based on their working capital—as it is already done in the case of co-operative societies.

[Item (iii), Question 1.]

(9) Statutory provision and rigid insistence on the building up of an adequate reserve would be a great source of strength and safety to the bank.

(10) A greater effort should be made to popularise the use of cheques. This would economise the use of metallic currency and would cheapen the costs of internal remittance. The recent abolition of the stamp duty has done much to increase the use of cheques. They are now used for the payment of small dues to a much larger extent than before, and they are far more popular now-a-days than even before. The cheque habit is growing slowly. But still, there is room for far greater use of cheques. Some of the ways of increasing the use of cheques would be as follows:—

(a) Banks now keep their offices open from 10 A.M. to 3 P.M. on week days and 10 A.M. to 1 P.M. on Saturdays. This period may be extended by say, one hour in the evening—say from 6 P.M. to 7 P.M. on week days.

(b) One factor which limits the use of cheques is the number of banks in the mofussil. In rural areas, where there is no bank, cheques are of no use. Hence, the greater the number of banks the greater would be the use of cheques. A greater development of branch banking would, therefore, be one of the best ways to extend and popularise the use of cheques. This process must necessarily be slow. We cannot rush the matter, for in banking—more than in anything else —the more hurry the less speed.

(c) The minimum amount needed for opening current accounts and the minimum balance to be maintained are unduly high

in some banks. Rs. 250 would be a safe minimum. Some banks make it Rs. 500 or even Rs. 1,000 which is unduly high.

(*d*) Offering slightly better terms for deposits in current accounts. Some banks give no interest on them, while others give a very small rate. If banks will, at least, give a better rate of interest on current accounts of small amounts, it would stimulate the cheque habit amongst a large number of people.

(*e*) Savings banks should allow at least a limited use of cheques. This will help the poorer and the middle classes in acquiring the habit of using cheques. Such classes generally get no current accounts but only accounts in savings banks. This will no doubt necessitate a large increase in postal staff before it can be introduced.

(*f*) The use of vernacular scripts in the cheques will make them more popular with people who do not understand English.

(*g*) Co-operative societies, in select cases, should be permitted by the Registrar to open current accounts. This added with vernacular cheques will help greatly the popularity of the cheque system.

(*h*) Cheques should be accepted in payment of Government dues. This is done in limited cases already, but it should be extended still further.

(11) To develop trade finance, Sir Basil Blackett has recently suggested* that rupee bills or hundis should be more largely developed. This would greatly remove the difficulties of accommodation and the inelasticity of the present system of finance.

[Item I, Question 2.]

(12) We must make a systematic attempt to draw out the hoards. I am not going to discuss the causes which led to the hoarding habit. They are too well known. The centuries of misrule, insecurity and political oppression before the advent of the British in India, the general poverty of the people, the desire for ornaments, the Mahomedan scruples over interest, the want of suitable opportunities for investment, iniquitous taxation—these and a host of other causes working through the centuries have produced this wasteful habit of hoarding. There is no use arguing about its causes. What is more important is the question of remedies to be applied to mitigate the evil.

Little has been done so far, to utilise the frozen capital of the country, which is hidden underground. No doubt, the co-operative societies, the Postal Savings Banks, the postal cash certificates, the growing popularity of currency notes and cheques—all these have done something for it. But unfortunately, what has been done so far is so poor and so little as compared with what yet remains to be done. Government ought to appoint a small committee, to go into the whole question and find out the best means of re-vitalising the vast mass of anæmic capital lying in the country. We must fight the uneconomic habits of hoarding in our people. One writer

* Journal of the Indian Institute of Bankers.

in the *Indian Finance** has suggested the issue of Gold Certificates by Government which will aid considerably in drawing out the hoards. The idea is, Government will invite holders of gold stocks to deposit their gold in the Paper Currency Reserve, in return for Gold Certificates to be issued by Government, on lines similar to postal cash certificates. The certificates will run for 5 years. The depositor can withdraw gold at any time within the period of 5 years without notice. A Rs. 1,000 worth of Gold Certificate will be issued for, say, Rs. 800 worth of gold deposit. The amount of payments before maturity will depend on the period of deposit, as in the case of cash certificates. The facility and guarantee of withdrawal at any moment *plus* the interest paid on them will give rise to confidence and will attract gold deposits in large quantities. The holders will get safe custody, avoid the risks of theft and will earn interest on their hoarded wealth. Such a scheme will coax the hoards out of their unknown retreats. If a little propaganda is carried on amongst ruling princes—some of whom have fabulous hoards†—big landlords, temples and mutts, we would no doubt do a lot in the line.

A vigorous development of the co-operative banks will also aid immensely. The postal cash certificates are also very useful for the purpose, but they can be considerably improved in order to do better. Some of the lines of improvement are—

(*a*) The limit of Rs. 10,000 should be extended. It is much too low. It should be raised to at least Rs. 25,000 for one depositor.

(*b*) At present, no interest is given for a period of 12 months. This is a great hardship on a large number of poor people who may be compelled to ask for discharge within that period. Interest should be allowed after, say, six months from the date of purchase.

(*c*) Vigorous propaganda to stimulate their sales by lectures, posters and advertisements in the vernacular, in bazars, markets, fairs, railway stations, post offices, hospitals, *thanas*, schools, colleges, clubs and societies, etc.

(*d*) The legal formalities necessary for discharge should be simplified—especially in the case of cash certificates purchased on behalf of minors. Discharge should be made as easy as the encashment of currency notes.

(*e*) Cash certificates should be printed in the vernacular of each province, so that the villagers may thoroughly appreciate them.

(*f*) One fatal defect in the cash certificates is that they bear no photo of His Majesty the King. In a country like India this is all important. It would add immensely to popular confidence in them. It is rather strange that while a five rupee or even the late one rupee note has or had it, a cash certificate for Rs. 1,000 goes without it. I would suggest that a small photo of His Majesty the King, of the size of a postage stamp, should be printed in deep carmine or deep blue colour. That will add to the attractions of the cash certificate.

(*g*) They should be made transferable like Government promissory notes.

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* January 18, 1930.

† See, Shirras in the Economic Journal, Dec. 1929 (page 631).

In a similar way, the Postal Savings Banks should also encourage the investment habit by—

(a) increasing the present annual limit for deposits—now fixed at Rs. 750—to at least Rs. 1,500 per annum. A change in the present limit—fixed long ago—is long overdue;

(b) increasing the rate of interest. At present it is 3 per cent. per annum. Considering the yield of Government paper and cash certificates this is much too low. At least 4 per cent. should be given.

(c) bi-weekly withdrawals should be permitted. At present, withdrawals are permitted only once a week. That scares away many people.

(d) payment of interest from the date of deposit irrespective of the question as to whether it is within or outside the 4th date of each month.

(e) a limited use of the fixed deposit system may be introduced.

Suggestions for changes in law.—The suggestions I would like to make [Item V, Question 1(b).] are:—

(1) We must control the methods and regulate the activities of the indigenous banker by legislation, of the type of the English Money-Lender's Act, or even the Punjab Regulation of Accounts Act. Considering the vast amount of business they do and the illiteracy of the people they deal with, the necessity and desirability, of licensing them and of compelling them to keep their accounts in a proper way and on approved methods, are self-evident. It is undeniable that the methods employed by them are sometimes grossly unfair to their poor and illiterate clients. There is much that is fishy in their dealings. Sometimes, payments are not acknowledged while, at other times, payments are appropriated against time-barred claims. Usury is rampant while the illiterate cultivators have sometimes to sign for bonds greater in amount than the actual transactions. Sometimes, the creditor enjoys a pre-emption as a condition of the loan and thus controls the produce of the debtor. The real rate of interest is thus concealed. Sometimes receipts are not granted in case of payments and independent literate witnesses are scarce. Under this system, once in debt, always in debt is the usual rule. There is no provision for audit and, therefore, no protection for the public. There ought to be some restriction on the amount of money they can lend on the security of immovable property and on the rate of interest that they can charge. The compulsory registration will go a great way to prevent abuses and to safeguard against frauds. They should be compelled to publish half-yearly statements of their assets and liabilities—so that everything will be open to public view. Publicity will remove all suspicions against them and thereby help them to expand their scope and enlarge their business. Publicity in banking is the best antidote to suspicion. It is the bed-rock on which banking stands.

There is an idea in some quarters that any attempt to enforce compulsory registration of these banks would be calamitous and that it would merely be a covered design to eliminate them from the field. There are some who find in it the cloven claw of

racialism in disguise, to effect the ruin of the indigenous banks. It is difficult to argue with such ill-conceived ideas. Let us look facts in the face. What is it that India wants? She wants adequate banking facilities for her people. But these facilities must be strictly honest, efficient and above suspicion. Banking, after all, is based on confidence. Banking can never flourish in an atmosphere of ill-will, distrust and public suspicion. That is one of the main reasons why the indigenous banking system did not flourish in the past. If the indigenous system will provide us with an efficient and honest banking, we would cordially welcome it not because it is merely Indian but because it is A1 as well as Indian. The two must go together. Merely the one without the other would be of no use. That would be the shadow without the substance—an illusion without the reality. But if the indigenous system is inadequate, inefficient and—in some cases—unjust, if it lacks confidence and is looked on with suspicion by the people, for whom they are meant, then it is our clear duty to improve them until they become efficient and command the fullest confidence of the people. After all, these banks exist for the people, not the people for the banks. Patriotism is certainly good but let no one trade on it.

(2) The indigenous banker often combines banking with trading business. He is often the jeweller, the cloth dealer, the grain merchant, the money-lender, the commission agent, the landlord and the mortgagee—all rolled into one. The result is, his losses in non-banking or trading business will affect his stability in banking business as well. Banking itself is a risky business and it demands a high grade of skill. To combine with it other risky and speculative trading business is clearly unfair to the depositors in the banking business. There ought to be a clear partition between his banking and non-banking activities. If he undertakes one, he should be debarred from undertaking others. Prudent banking and multiple business system go ill together.

[Item III, Question 2.]

(3) I wonder if it would be feasible, but a system of compulsory State audit would go a great way in improving them. Government provided a system of audit for the vast number of co-operative societies in return for a small audit fee. A similar system in the case of the indigenous bankers may rehabilitate them and give them their legitimate position in the economic structure of the country.

(4) The banker must be protected against forged or unauthorised endorsements. The Negotiable Instruments Act is not very clear on the point and doubts have been expressed as to whether the Indian banks get the same amount of legal protection as banks in England. It is satisfactory to note that an amendment of the law is in hand already, to make the whole position clear.

[Item V, Question 6.]

(5) A suggestion has been made in some quarters that a minimum capital standard should be enforced, by statute, for these banks. In some quarters, Rs. 10 lakhs have been suggested as the minimum subscribed

[Item III, Question3.]

capital out of which Rs. 5 lakhs must be paid up before the business is allowed to call itself a bank. I am unable to support this proposal for obvious reasons. Why should the State intervene to lay down such a minimum capital standard in the case of one industry only, *viz.*, banking, while it leaves all other industries free? Why should there be this invidious distinction? Secondly, to enforce such a condition would mean that all small businesses must disappear. The small loan offices in the villages and small towns which are doing very good work—especially in Bengal—would be ruined. Their number and volume of business is now so large that it would be most imprudent to tamper with them. Further, supposing we sweep them out of existence, what are we going to put up in their place? There is no justification for such a drastic and suicidal step. Each business must be left free to judge for itself the amount of capital it needs.

(6) The next suggestion is to refuse to allow a business to call itself a "bank" unless it adopts a definite system of business and affords the maximum amount of protection and safeguards to the public. I agree whole heartedly with it. The word "bank" automatically connotes, in modern times, in the minds of the public, of certain definite standard of doing business, a certain integrity, honesty and business-like methods and conventions. People take it for granted that such a standard is duly maintained when a business calls itself a bank. But if these standards are not maintained, if the system of accounts leaves room for suspicion or even uneasiness, if the audit is weak or non-existent and if the methods of business are irregular and inefficient, then the institution becomes a misnomer—practically a fraud upon the innocent people.

[Item III, Question 3.]

(7) At present, anyone can institute criminal proceedings against a bank or its management for some technical default or a petty mistake on its part. It does irreparable harm to credit institutions. The long period of trial leads to panicky feelings among depositors and shareholders. The work and prestige of years are shaken in a short time. The case of Shamdasani *vs.* Tata Iron and Steel Co. Ltd., took 2½ years to settle. The Chief Justice of the Bombay High Court (Marten J.) pointed out the desirability of amending the Indian law on the subject. Section 282 of the Indian Companies Act, he pointed out, should be amended by requiring the sanction of the Advocate-General before any prosecution is started. "The present company," he said "happens to be an iron and steel company but one can imagine cases of banking companies, for instance, where their credit is a more tender plant than that of an iron and steel company. There are certain provisions in England which impose a check on persons desiring to put the criminal law in motion in other respects and which may be, with a similar check, usefully imposed as regards section 282, at any rate as regards banking companies in India". We need statutory provision against such dangers. In this connection, it is pertinent to point out that the Indian Companies Act has not been revised since 1913. It is time to look into it.

[Item III, Question 12.]

[Item III, Question 6.]

Reforms suggested in the Imperial Bank—My suggestions are :—

(1) The Imperial Bank must render greater aid and give greater facilities to indigenous bankers. Its rules relating to advances should be liberalised so as to make it more helpful to them.

[Item V, Question 1 (*b*) and Question 2.]

(2) Considering that its new branches have proved so disastrous and so unfair to the joint stock banks, the Imperial Bank should cease to trespass into their territory. A statutory provision should be made to permit the Imperial Bank to open branches, only where there is no other bank already existing within a certain radius. We want more banks: but we do not want an Imperial Bank *at the expense of a joint stock bank*. That adds little to the banking strength of the country. It leaves us as we were.

(3) There ought to be greater Indianisation of the staff. That would ensure—

[Item V, Question 7.]

(*i*) Indianisation which India has a right to insist upon,

(*ii*) lower cost,

(*iii*) therefore, cheaper credit,

(*iv*) and lower charges to Government,

(*v*) greater co-ordination and co-operation between the bank and its customers—especially between the Imperial Bank and the indigenous banking system.

The Chairman and a majority of the Directors on the provincial and Central Boards should be Indians.

(*vi*) elimination of all chances, all risks and all suspicions of invidious distinctions between the Indian and the European customers. How far this suspicion is real or justified, I am not in a position to judge. The recent statement by Sir Norman Murray that the Imperial Bank's industrial advances to Indians totalled Rs. 13 crores as against Rs. 7½ crores advanced to Europeans does not carry us far because it takes no account of—

(*a*) the population strength of Indians and Europeans.

(*b*) the total advances asked for by both ; we want to know how much each community asked for and how much each secured,

(*c*) the rates and terms on which the advances were made to each class of customers.

It must be noted, however, that Sir Norman Murray also showed that the percentage of advances to Indians and Europeans was almost identical with the percentage of deposits received from them, *e. g.* :—

	Deposits.	P. C. of the total.	Total advances.	P. C. of the total.
Indians . .	35 crores.	67	48 crores.	68
Europeans .	16 ,,	33	23 ,,	32

(vii) the creation of a trained band of competent Indians who would be able to guide and develop Indian banking along safe and sound lines. We want the Imperial Bank not merely to manufacture clerks at the counter but trained business men at the head, who would have the training, the initiative and the courage needed for the work. The Imperial Bank's scheme of Indianisation that it has adopted so far is too much of an eye-wash. It is much too small as compared with what it ought to do and what we want to have. We want a real effort—not a mere window-dressing which will make a good show at question time in the Legislative Assembly.

(4) It should cease its unfair competition with the Indian joint stock banks.

(5) Its monopoly of treasury business should be extended in part to other private banks. Why should not Government balances help the national banks as well? Why should the Imperial Bank have the sole monopoly of it?

(6) It should be made a real Bankers' Bank. The present hybrid constitution by which it is a private bank, a Central Bank and a State bank all combined, is clearly an anomaly.

Banking co-operation.—The first basic reform needed to develop the banking system of India is the establishment of a Central Reserve Bank that will weave the entire financial fabric of the country into one automatic, independent and organic whole. This question has been unfortunately excluded from the scope of the Committee and hence it is not possible to discuss in detail the manifold advantages that the country would get out of it. The Imperial Bank, at present, does not serve the purpose as a Central Bank. In the absence of such a Central Bank our financial machinery is clogged; the arteries which would distribute the money in an automatic flow from the centre to the outlying parts in the busy season and bring it back in the slack season are choked and paralysed. No wonder, our banking and currency systems are artificial, unnatural and inadequate to discharge their legitimate functions. A Reserve Bank at the head, that will co-ordinate the entire banking system of the country, would be a great advantage. Without such an institution, there can be no co-ordination of policy and plans. Development under such circumstances is apt to be unnatural, irregular and erratic. This has already happened in many cases and we are now reaping the fruits of our past folly. In every civilised country we find a State bank at the head which is more or less a Bankers' Bank and which does not enter into competition with private banks. We want India to fall in line with them.

[Item V, Question 1 (c) and Question 2.]

There is certainly room for a good deal of improvement in banking efficiency and much of it can be brought about by greater co-operation amongst the banks themselves. An all-round banking development calls for a complete co-ordination between the modern and the indigenous systems of banking in the country. Having regard to the great importance of the indigenous banking system in India, it is essential that we should link it up with the general banking organization of the country and give to it that honourable place, that is legitimately due to it. The two systems should not be competitive and independent but they should be made supplementary

to each other. We must make them and utilise them as integral parts of the credit system of our country. This can be done by :—

(*i*) Greater co-operation in business amongst themselves.

(*ii*) Providing greater facilities for mutual consultation.

(*iii*) Admitting prominent indigenous bankers into the directorate of co-operative banks or ordinary commercial banks.

(*iv*) Utilising the services of the indigenous banker to act as a bank between the joint stock banks on the one hand and the small borrowers on the other. The indigenous banker will thus be linked up with the Imperial Bank and such a link will be of immense value in stabilizing and improving the conditions of banking in India. Indigenous bankers may be appointed as agents of joint stock banks to do business in rural areas. It would be considerably cheaper and more economical than starting an independent branch in such a place. The expenses of an independent branch will be very much greater than the agency charges of the indigenous bankers. The statutory provision which compelled the Imperial Bank to open 100 new branches has worked disastrously for the indigenous banker and for the Indian joint stock banks. A better way to provide banking facilities in the mofussil would be the appointment, by the Imperial and other banks, of local agents in such places from the shroffs and indigenous bankers. Their close personal knowledge of the villages, their personal contact and vigilance will be invaluable to the banks which engage them. Banking cannot penetrate deeply into rural India except by building up a regular chain of financial mechanism supplied by the *bania*, the *shroff*, the co-operative and the joint stock banks, all together.

[Item V, Question 7.]

(*v*) The loan companies in the mofussil may be federated into small territorial groups, in which case the banks may deal with them more easily and with greater safety. It will be the counterpart of the district banks of the co-operative movement. It will help the growth of a closer touch between the two.

Lastly, an association of bankers should be formed in all the larger cities to bring all banks into closer touch with one another; such an association if rightly used, will allay mutual suspicion, clear misunderstandings, remove distrust and will aid each other in their delicate work. As Mr. S. N. Pochkhanawalla has pointed out "banks in India have no source of information to determine the credit of their clients except through bazar reports. If a bank insists on a client producing his balance sheet to determine his financial position, he resents the idea and gives to another bank which receives him with open arms". Such cases of mutual rivalry can be settled quickly and easily in an association where banks can pool their information just as insurance companies do, whenever a man applies for a life insurance in one particular company, the company is able to draw on, all information available about him from all other insurance companies, where he might have previously gone for insurance.

In all these ways, it will be possible to increase considerably the efficiency of banking institutions in India.

APPENDIX.

UNIVERSITY OF LUCKNOW FACULTY OF COMMERCE.

COURSES OF STUDY.

Advanced Accounting and Auditing.

FIRST YEAR COURSE.

The Bachelor of Commerce course in Accounting is a continuation of the Commercial Diploma Course of the Intermediate Board of Education of the United Provinces. It includes: The Principles of the Double Entry, Book-keeping and their application. Books of Original Entry, including tabular forms. The Ledger, Trial Balance. Trading, Manufacturing, and Profit and Loss Accounts, with apportionments and adjustments Balance Sheets. Loose leaf and Card Index systems of Book-keeping. Self-balancing Ledgers, Single Entry Book-keeping.

In the treatment of the above the following matters are included: Cheques, Bills of Exchange and Promissory Notes. Good-will. Classification of Assets. Bad debts. Depreciation. Reserves and Sinking Funds. Consignment, Joint adventure and Contract Accounts. Partnership and Company Accounts (including the Double Accounts System). Capital and Revenue. Investments. Accounts Current. Average Due Dates.

Partnership Accounts.—The rights and duties of Partner's interests as they affect accounts. The adjustments arising out of partnership relationships. The introduction of new partners. The retirement of partners. Good-will in partnership accounts. Dissolution and realization. Limited partnership and all matters relating to partnership accounts.

Joint Stock Companies.—The statistical and other records and returns necessary by statute or by the special needs arising out of the formation and conduct of joint stock companies. The special books and registers employed, whether obligatory or otherwise. The methods of dealing with the special transaction arising out of the formation, conduct, amalgamation, absorption and reconstruction of joint stock companies, private companies.

The Double Account System.—Its principles and characteristics. The problem of depreciation and the methods of accounting. Suitability to various clauses of undertakings.

Branch and Department Accounts.—Including those of foreign branches and the treatment of fluctuating currencies therein. Their organization and control from the head office.

Insolvency and Liquidation Accounts.—The special books-accounts, records and returns necessary (i) upon the insolvency of an individual or firm during insolvency proceedings and under Deeds of Arrangement and (ii) under liquidation proceedings of a Joint Stock Company.

Miscellaneous Accounts.—Bank Accounts, Insurance Accounts. Goods on sale or return, Royalties Accounts, Hire Purchase and Instalment system. Repayment of Liabilities and Replacement of Assets. Manufacturing Accounts, Contract Accounts, and Accounts of Non-Trading Organizations.

Books recommended :

Batliboi : Advanced Accounts.

Carter : Advanced Accounts.

Cropper : Accounting.

Spicer and Peglar : Book-keeping and Accounts.

SECOND YEAR COURSE.

Published Accounts.—The construction, interpretation, and criticism of the account published or employed by different kinds of joint stock companies. The distinctive features of the accounts of different undertakings connected with various leading industries. The special characteristics which mark the accounts of local authorities.

Cost Accounts.—With special reference to works and factory accounting. The various systems of costing and the merits and weaknesses of each. The varying circumstances to be borne in mind, in particular businesses when constructing a system, and the necessary limitations of Cost Accounts. The various methods of payment of wages and of remuneration for management. Fixed charges and the relation of selling prices to cost prices. The analysis of accounts with a view to the computation of earnings and comparison of expenses.

Income-tax and Super-tax.—

Charges of Income-tax, application of Income-Tax Act and exemptions.
Heads of Income, Bases of Assessment with regard to each head.

Taxation of firms .. registered.

,, ,, ,, .. unregistered.

,, ,, companies.

,, ,, Hindu undivided family.

Taxation of firms .. individuals.

,, ,, ,, .. discontinued business.

,, ,, new business.

,, in the case of change in ownership of business.

Total Income.—Its meaning, how determined, its exemptions. Refunds, Set-off of loss, Table of rates, charge of Super-tax. Total Income for Super-tax purposes. Exemptions.

Auditing.—The continuous and the completed audit. The Detection of Fraud. Technical Errors and the errors of Principle. First and Subsequent audit ; Verifying Cash Securities, Stock Sheets, Wages Sheets ; special consideration in different classes of audit ; Valuation of Fixed and Floating Assets. Form of Accounts and Balance Sheets, Capital and Revenue Items, the Auditor's Certificate, the liabilities of auditors, the conduct of investigations and the certifying of average profits.

Books recommended :

Batliboi : Advanced Accounts.

Carter : Advanced Accounts.

Cropper : Accounting.

Lunt : Manual of Cost Accounts.

Ridgway : Cost Accounts.

Strachan : Cost Accounts.

Spicer and Peglar : Practical Auditing.

Income-Tax Manual (issued by the authority of the Government of India).

ADVANCED BANKING (PREVIOUS).

Currency.—The functions and economic significance of money. Various forms of money. Quantity Theory of money. Currency appreciation and depreciation......causes, effects, and remedies. Battle of monetory standards. Currency Principle and Banking Principle. Methods of regulating note-issue in different countries. Various proposals for international Currency. The Post-war currency problems in different countries.

Indian Currency system. Historical development and present currency problems. The war and Gold Exchange Standard in India.

Banking.—The nature of banking and the functions of the banker. Simple banking operations. The general structure and methods of English banking. How to read the Balance-Sheet of a bank. Banking and Money Market. The reserve and the discount rate. Causes of fluctuations in the Bank rate. Credit and its developments.

Indian Banking System.—Exchange Banks, Joint Stock Banks. Co-operative Banks, the Imperial Bank of India. Problems of Indian Banking, Structure of Indian Money Markets.

The origin and management of Commercial Crisis. State interference with banking.

Stock exchange.—Relation with money Market. Working of Stock-Exchanges. Economic effects of Speculation.

Books recommended :

Kinley : Money

B. T. Thakur : Organization of Indian Banking.

Scott : Money and Banking.

Report of the Royal Commission on Indian Currency and Exchange, 1926.

Ambedkar : Problem of the Rupee.

Withers : Meaning of Money.

ADVANCED BANKING (FINAL).*

The ordinary practice of bankers with regard to the opening and conduct of banking accounts.

Cheque.—Forms, Endorsements, Crossing of Cheques, Forgery and Alteration. Bankers' marks on Cheques. Termination of bankers' authority to pay Cheques.

Bills of Exchange.—Forms, Endorsements, Acceptance, Acceptance for honour, case of need, Noting, Protest, Stamp duties, discharge of a bill.

Theory and characteristic of Negotiability. Discounting of Bills of Exchange.

Bankers' Credits.—Travellers' letters of credit ; Circular notes, Confirmed Bankers' Credits, Unconfirmed Bankers' Credits. London Acceptance Credit, Documentary Credit. Revolving Credit.

Bankers' Advances.—Advances against marketable securities, goods and produce, real property, ships, guarantees, debts. Debentures of Companies, Unsecured advances.

Banking investment. Deposit of valuables with the Bank. Banks and Customers. Mechanism of the Clearing House system.

BANKS ORGANIZATION, MANAGEMENT AND ACCOUNTS.

Historical and comparative study of banking with special reference to the English, American, German, and French.

Banking Law.—Relating to Cheques, Bills of Exchange. Promissory Notes, Bankers' advances against securities, Bankers' credits.

Problems and recent developments of modern Banking.

Books recommended :

Sheldon : Practice of Banking.

Paget : Law of Banking.

Spalding :—Bankers' Credit.

Williams : Advances against Produce.

Tannan : Law and Practice of Indian Banking.

Kisch : Central Banks.

*Final examination includes the first year course also.

No. 31.

Statement of evidence submitted by Rai Promatha Nath Mullick Bahadur, Calcutta.

III.

1. Certainly yes.

The auditors and examiners should be appointed by those shareholders who are not officers or interested directors of the bank. Officers or heads of banks are often shareholders and can often easily secure proxies for their nominees from shareholders who have to seek their help when they want to take loans from the bank, and, therefore, these officers (shareholders) should not have any voice in appointing their examiners and auditors. Further, instead of the same staff of auditors and examiners and directors growing friendly and continuing, they should be changed annually. Certain firms should not have the privileged monopoly of these posts of a bank. The duties of such auditors should also be to see that no necessary information or materials are withheld from shareholders who want to be acquainted with them. As to their qualifications, besides being men with thorough knowledge of accounts, they must be honest business-men with good records who cannot be bought over in any way. (*Vide* Directors and auditors, convictions in the Bengal National Bank case and their conduct in the Alliance Bank failures, etc.)

2. Ordinarily exchange banks and ordinary joint stock banks should not have restrictions imposed on their business. And as to restrictions on other kinds of banks, the nature of the restrictions would depend upon the nature of the business of the bank. For instance, land mortgage banks, industrial banks, co-operative banks, big joint stock banks would each conduct business on particular lines, and besides other legitimate restrictions, there ought perhaps to be some restrictions on the business of each class of bank to prevent the same militating and injuriously competing against those of the other classes of banks.

As to the restrictions on the business of the Imperial Bank, I think the constitution and working of the same should be thoroughly revised and overhauled.

If the Imperial Bank continues to be Bankers to the Government of India, it must be a free bank with less of State control than obtains at present. It must have more free scope to look to the interests of its proprietors (*i.e.*, the shareholders) than to the interests of Government; the restrictions indicated in Section 8 of the Imperial Bank of India Act should be amended in such a way as to leave greater discretion to the bank to advance loans to deserving parties on approved purposes, for longer periods. A special credit Board should be appointed to decide those questions in a bank instead of leaving it to the absolute discretion of directors and officers without any responsibility.

3. The word " bank " should be restricted to those joint stock registered companies which satisfy the legal definition of the word " bank ".

Additional special provisions for local firms and branches of foreign companies referred to in clauses (*a*), (*b*) and (*c*) would be welcome, if it would tend to minimise the chances of fraud on the public committed by those irregular and self-styled banks. But on the other hand, the fact must not be lost sight

of that these private bankers do a good deal of useful work in helping and fostering local trade and industry, and so long as they do not claim the legal concessions extended to banks strictly so called, they should not be brought within the restrictions of the provisions of the law relating to banks.

If any additional provisions are made for these irregular banks, these provisions, besides being enforced in the ordinary way through the law courts, should be worked by the appointment of Government examiners of accounts and auditors, and if necessary, by the income-tax office staff in the districts who at present check and examine all the accounts of all such firms.

4. Yes.

5. Co-operative banks, exchange banks, etc., should have their sphere of operations defined, preferably by rules framed under a statute than by sharply crystallized provisions of the statute itself, which might often handicap and hamper the said banks in closing some little profitable business out of their line which do not clash against the interests of any other class of banks. But the rules should be so designed as to prevent the business of a certain class of banks militating injuriously and competing against the legitimate business of any other class of banks. Especially, the co-operative Banks in this country are in their infancy, and considering the very useful work they are doing to the tillers of the soil, bigger agriculturists, the manufacturers, the middle class people and to all indigenous industries, their sphere of business should be protected from aggression by other classes of banks who help profiteers and monopolists.

6. The present position of a limited liability bank being governed by the Law of Joint Stock Companies is not quite satisfactory. Being in its very nature a concern which deals entirely with public money and money alone, there should be additional safeguards for preventing frauds and misapplication and misappropriations of the funds. And to that end it should be so provided that the bank cannot easily withdraw its capital and defraud its creditors. Besides there should be special provisions for reserves, and for more frequent publication of balance sheets of banks which should show the true state of affairs upto the previous month. If possible, banks balance sheets should be published monthly representing the actual state of the funds upto the previous month and be filed with the Registrar of Joint Stock Companies. This would minimise chances of misappropriation and would at the same time tend to forestall bank failures.

7. Before sending a bank to expeditious liquidation, it should be imperative that its assets should be valued by independent and disinterested experts appointed by Court. No bank should be forced to liquidation on a valuation of its assets by a rival creditor bank, whose valuation and desire for liquidation of its rival are apt to be prompted by self-interest and rivalry. Advance payments to depositors of a certain proportion is also apt to be a bait to the other creditors and depositors to concur in the liquidation and to accept liquidation as a settled fact instead of fighting against it. Such a condition of things ought not to be permitted for the security of the banks in general as also in the interest of the general public. Such was the widespread belief in the public mind regarding the Alliance Bank liquidation affair and it was generally complained that a bank which could pay more than three fourths of its liabilities, as its Liquidators estimated after meeting their high commission and heavy establishment charges not to speak of its assets did not realise their full value, should never, at all, have been sent to liquidation.

8. Some of the principal causes which have led to bank failures in India are as follows :—

(i) Bad management—Good management of a bank should consist in creating an influx of capital on low rate of interest under tolerable conditions. It must endeavour to diminish the working expenses by rationalisation from within. A thoroughly sound bank direction should aim at obtaining the necessary funds for its working expenses from its *ordinary* bank-business. Bad management fails to attract capital and to keep down the working expenses with the result that a crash becomes inevitable and is only a question of time.

(ii) Wrong credit allowance, specially against speculative or unstable stocks—Not infrequently it happens that directors or influential members of other firms or companies are also the directors of a bank who get greater credit and other privileges than they are ordinarily entitled to. These directors of the bank, therefore, get special facilities in obtaining loans and advances to their respective firms, credit being often allowed to them by their friend directors of the bank on insufficient and unscrutinized securities. To forestall this danger, it should be provided that no director of a bank should be a director, member or partner or officer of any other firm, company or bank which have business dealings of this nature.

(iii) Want of honest, capable and responsible officers and directors—In India after so many years of British rule, there is no institution to train young men in banking business. In England and Scotland a young man from his seventeenth or eighteenth year commences to take his training in banking and in India all the responsible and higher officers of respectable banks have to be taken from the West. Naturally a very high price has to be paid to obtain the benefit of these West-trained men. The working expenses, therefore, go up out of proportion and often lead to a failure. And in the case of those banks which do not requisition the services of such West-trained men, people without suitable training being put at the posts which they ill be-fit, often work the bank at a loss or manage to rule on barely balancing the credit and debit sides. Further, irresponsible officers and directors advancing loans to friendly companies or firms without proper scrutiny have not unoften paved the way for a failure.

(iv) False transactions and wrong withdrawals.

(v) Hasty and inconsiderate creditors with little knowledge of the bank's assets demanding immediate payment and creating a run on the bank—This danger is often accentuated if a rival bank is a creditor to a large extent. (*Vide* Alliance Bank failure.) In such cases premature and unmerited liquidation should be averted by some plan for amalgamation with some other friendly bank.

(vi) Want of sufficient cash to meet the current account liabilities—The paid up capital should be large and not a small fraction of the authorised capital as in ordinary joint stock limited companies. The management, policy and the principles of a bank should be

such as to create public confidence so as to induce an influx c internal and external capital on tolerable conditions. Tha would possibly obviate the possibility of a crash on this account

Preventive remedies would be the elimination of the above causes c failures. Besides the remedies suggested above, there should be strict provi sions regarding the examination of the balance sheets of a bank *monthly* b: independent auditors who will certify the assets and liabilities every montl instead of their being passed at the annual shareholders' meeting only b: proxy votes secured by bank's officers and directors.

In cases of apprehended failure timely assistance may be secured by applying to Court for appointment of one or two disinterested bank experts of approved merit and experience as Receivers to take charge of the banks' assets, first to appraise them and ascertain the liabilities in order to try to square them from within or to try to settle affairs by borrowing on mortgage or otherwise with the sanction of the Court. If after such genuine efforts, liabilities cannot be settled to the satisfaction of the creditors, then and then only, should a bank be sent to liquidation. Legislation to the above end would be necessary.

9. I am strongly of opinion that as in the case of the Alliance Bank, difficulties could have been and can well in future be averted by some discreet scheme of amalgamation. Under the existing law, unless the bank management can scent a danger at a distance, i.e., sometime before the actual commencement of the run on its resources, liquidation can very seldom be averted. Legislative provision should be made empowering courts to give a bank on a proper security adequate time and opportunities to arrange for and work out a scheme of reconstruction or amalgamation with some other friendly bank whose working methods or sphere of actions are similar to those of the bank in question. Amalgamation of two banks in the first place, would very substantially reduce the working expenses, which is of paramount importance, and in the second place, it would stabilise public confidence, and lastly, the assets of the other bank would be available for soothing the importunate demands of *bona fide* withdrawers or for circumventing the ulterior motives of any rival creditor bank. Considerations such as the above led to the fusion of some big German banks and in India also, the fusion of the Tata Industrial Bank with the Central Bank of India are instances in point. Such fusion was rendered possible and successful by the strong resemblance which existed between the internal organisation of the two banks amalgamated.

10. The cost of liquidation is high, no doubt. Witness the Alliance Bank liquidation expenses—expert valuation of the assets promised a dividend of 14 as. in the rupee, but upto now only 11 as. in the rupee were paid. The cost can be reduced by legislative provision to the effect that the assets of banks in liquidation would rest in and the winding up done by a special official Receiver on a fixed percentage of remuneration. There is no guarantee or provision that the liquidation be curtailed after payment of ¾th dividend, so that the cost of liquidation cannot eat up the estimated proportion referred to above.

11. Having regard to the past experience of so many bank failures in India, some sort of legislative protection of all classes of depositors is imperative. In case of compulsory liquidation, all depositors should first be paid in full, then the menials, workmen, etc., should be paid in the order prescribed by the Insolvency Acts, then the creditors should be rateably paid, shareholders coming last of all.

12. A really stable bank should be protected against any unjust attacks. Everything will depend on the bank's regular and faithful publication of its balance sheets. The Registrar of Joint Stock Companies should be given power in the first instance to make recommendations for such protection by way of a preliminary inquiry, and the final authority to grant such protection should be the court on trial of issues before it on full evidence produced before itself. The nature of the protection has been foreshadowed in the concluding portion of the answer to question No. 8 above.

13. In view of the fact that co-operative banks are in their infancy, and the more important fact that of all the banks they are doing the most useful service to the country by fostering indigenous industries and local manufactures, helping agriculturists, peasants and the middle class people, and saving all the above from the ruinous clutches of usurious money-lenders and profiteers, co-operative banks, land mortgage and industrial banks and in fact all those Banks which, by whatever name called, do the above class of business, should enjoy certain necessary legislative protection in the shape of immunity from some taxes, grant of loan by Government in times of difficulties, Government patronage in case of flotation of any loans, protection from any unjust attacks against their stability, reduced percentage of winding up costs and so forth.

GENERAL OBSERVATIONS.

(On Regulation of Banking.)

Banks in India do not enjoy the privilege of issuing notes which is the best way of introducing paper money and deposit system of banking. The Government Post Office Savings Bank and cash certificate system very largely interfere with the true banking system of a country. The Government of India or any provincial Government has not done anything to extricate either zamindars or peasants from their chronic indebtedness to money-lenders whose high rate of interest is crushing them but to whom they have resort to meet the ever increasing land revenue under sunset law, high price levels and their expenses of cultivation.

The credit of a banker being efficiently advertised by the note if accepted by the public, a system of bank note issue is the best way of introducing a large system of deposit banking. This cannot be done unless the people have explicit faith in a bank which deals with its constituents very honestly without any kind of bias or injustice. Its accounts should present the true state of things and should be easily understood, nothing being made obscure or hidden. No bank can establish its credit unless it presents unvarnished account of its profit and loss, its assets and liabilities and its present and future prospects. India is now in great need of development which will improve the condition of the people by increased production in agriculture, industry and manufacture through the bankers' help. The cultivators in India have yet to learn the best processes of agriculture and to catch the proper market for their produce instead of falling into the hands of money-lenders and profiteers or middlemen. The gates of commerce and trade should be more widely opened through sound banking regulations and undertakings than they are now.

IV.—*Banking Education.*

1. None whatsoever, and there is no co-ordination of effort between any institution and the banks. [*Vide* paragraph (*iii*) of the answer to question 8 of heading III—Regulation of Banking.]

2. Banks do not provide any facilities for the training of boys (outsiders) in banking business. Those who are on the staff, rub on and plod on in their daily routine work and thereby pick up what they can of some knowledge of the particular department of the banks' business in which they are respectively placed in the ordinary course of their duty. Recruitment of staff by the banks referred to has, of necessity, to be from the University graduates, who have shown some proficiency in arts or science or mathematics, but there being no schools or colleges for teaching banking, these recruits are absolutely innocent of any knowledge of banking. And in the present day methods of recruitment by the Imperial Bank, these are glaring instances of injustice by the banks' heads and responsible officers regarding appointments and promotions, which formed the subject matter of bitter press agitation and which will show what a bank like the Imperial Bank can do in training youths who enter its service and who are the fortunate few for whom all this injustice is done. The method of recruitment of the staff of the Imperial Bank from the highest to the lowest cannot be praised or said to be perfect at least.

There have been serious complaints about it by the shareholders with the authorities of the bank, copies of correspondence regarding which are sent herewith to speak for themselves.

3. The question is vague. There being practically no instruction in banking at present there is no question of combination of theoretical or practical training in banking. Hardly appointments in banks are made with an eye to the theoretical and practical combinations and very rarely such a combination is found in the responsible officers or heads of banks here.

High posts of the banks, as a rule, have been reached by Europeans promoted from the lowest ranks without any academic qualifications and it is an irony of fate they examine Indian graduates before admitting them as probationers of the bank. Besides, in the case of the appointment of the Managing Governors, there is a strange anomaly that they are appointed by Government without consulting the wishes of the shareholders in any way and the appointments generally go to the retiring secretaries without any special qualifications, either as regards international banking experience or academic merit befitting their high pay and great responsibility. As a matter of fact, these promotions of the secretaries of long service and played out energies carry with them, some sort of obligations and old friendships which influence them in dealing with questions where the interests of the shareholders of the bank clash with those of Government. These posts should on no account be in the gift of Government and their services should not be recognised by Government, unless and until the shareholders of the bank make due representations to Government to that effect. For all these reasons, Indian appointments in the banks have not been attractive and as long as these grievances are not remedied, any facility for banking education in the schools, colleges or Universities in India would be useless.

5. The heads of the banks should be men of high European academic reputation and banking experience, of high social position and integrity, not to be carried away by any likes and dislikes, which is inevitable with those who have been in service in India for a long time.

4 and 7. [See paragraph (*iii*) of answer to question No. 8 of heading III—Regulation of Banking.] There is no training of indigenous bankers worth the name. The provision of special training for this class of bankers depends materially upon banking organisation and currency reform. There should be

institutions affiliated to the Universities which would impart theoretical and practical training in banking under European experts, and the University should confer Bachelors' and Masters' degrees in banking.

8. The prospects of the boys trained in banking in India are at present not bright, as Indians serving as probationers in the biggest bank, *viz.*, the Imperial Bank, have all been disappointed more or less as could be gathered from reliable information. I do not attribute the slow development of banking and specially branch banking so much to the absence of trained men in India, as to want of men's confidence in bank's impartial transactions and credit, etc. No consistent policy of hard and fast rule is observed in making advances in respect of time limit or the amount of advances but it entirely rests with the sweet will of the officers of the loan department. Demand loans against *Trustee-stock* should not be called for payment by the whims and caprices of any officer of the bank without assigning sufficient reasons for the same. There should be no question of difference in granting loans on the ground of colour or friendship in any bank, as is disclosed in the minute of dissent of the External Capital Committee Report.

General observations on Heading IV.

Banking Education.

Mere legislative enactments will not improve banking in India. Good and efficient bankers with true knowledge of the theories of banking and wide-experience hardly come out to India to put their knowledge into practice and to train efficient bankers to make banking a success in India. The greatest asset of the English nation is its banks and bankers. Through their efforts London became the centre of international money market. In India with so many years of British connection and rule, there is no money market anywhere, nor is its money market respected or counted. India suffers very badly for want of true banking education as well as training. This is more or less due to want of faith in and the education of the heads of banks who owe their positions generally to long service or Government favour rather than anything else. Further, the majority of posts in banks offer no high emoluments to attract capable men to enter Bank's services. Indianisation of bank's services is, no doubt, an important question of the day.

V.—*General Banking Organisation and Money Market.*

Answer 1.—Yes.

The Government of India should be guided by past experience and the present circumstances to remedy the present organisation of banks in such a way that the banks can influence the money market. Banks alone can guide the investment market by financing the class of good industrial, manufacturing and other useful concerns of the country. It is in this way that banks in other countries being in close connection with all the branches of home industry, with the universality of their experience and their activities, are especially fitted and useful to render assistance to the investor and to guide the money market. Much depends in India on the attitude of the people and of their good bankers. Banks in India do not perform the function which they do in other countries. Here the banks are, more or less, concerned with their own profit, made chiefly from deposits made by people or business concerns who have surplus money to put into banks. In India these latter people

patronise and help the banks whereas in other countries the banks help the people by helping their industries, manufactures, agriculture, etc., by moving crops, etc., to consuming centres and generally controlling the price-levels. All this again is due to the patent fact that in other countries the bankers are their own people who have affection for their own country and have their country's prosperity and well-being at their heart, whereas in India, the bankers are mostly foreigners, given to exploiting the resources of India for the well-being and prosperity, *not of India*, but of their own respective countries. So the fundamental defect in the banking organisation of the country can hardly be remedied by administrative measures, legislation or co-operation amongst the banks. Minor defects or defects of detail in the existing system can, however, be partially remedied by legislation and co-operation amongst banks themselves. For instance, frauds upon banks may be forestalled by legislative provisions to the end that mortgages to banks would not be completed simply by registration with the Registrar of Assurances but must be registered with a Registrar of Banks, who will forward particulars of the mortgage to all the banks within his jurisdiction or the banks would have to take his sanction (after search of his registers to see if there are other mortgages on the self-same properties) before the mortgage can be completed and the loans thereon be actually advanced. (*Vide* Guzder case in Calcutta.)

There should also be a certain amount of co-operation in these respects amongst the various banks themselves, such as there is in existence amongst the various life assurance companies, regarding their transactions with individual constituents, under which system each company supplies information to the other companies giving details of the individual lives assured with them. For the stability of banking organisations and consequently that of the money market, some such administrative measures, *e.g.*, requiring each bank to make a security deposit with Government for the benefit of its constituents as is required from all life assurance companies in India, may be desirable and useful in minimising the chances of failure and safeguarding the interests of depositors in case of failures.

Answer 4.—The Bank Rate should truly represent the condition of the money market. But it is desirable that Bank Rates should denounce speculation and prevent any such crash as befell in Wall street. The rise and fall of the price of stocks have little bearing on basic values. The Bank Rate should be such as would not make it possible for the stock market ever to collapse like a house of cards.

Answer 5.—Financial panic in war-time is inevitable but it is inexplicable why now in peace time Government credit is so very low that the Honourable Finance Member of the Government of India had to announce the flotation of an Indian loan in sterling, paying higher rate of interest than before and at a discount in London money market. This was not due to Congress Resolution at Lahore or to activities of the extremist section but, more or less, to the wrong financial policy followed by the Government of India and its want of a sound currency and bankers worthy of the Government of India.

Answer 6.—Wrong payments of unclaimed money of the old Presidency Banks by the Imperial Bank as well as advances made to the Bengal National Bank etc. It is not due so much to inadequacy of existing legal provisions as to apparent neglect of duty on the part of the responsible officers of the bank who are, more or less, induced and encouraged by the fact that they are never, as a rule, called upon to make good the losses, or forfeit their provident

fund or pension or are prosecuted for negligence or connivance as the case may be. Protection to banks against frauds, etc., can only be effected (without entailing any hardships on *bona fide* customers) by dealing with the officer at fault and giving exemplary punishment and by forfeitures, etc., indicated above. (*Vide* also answer to question 1 of heading V—General Banking Organisation, etc.)

Answer 7.—Yes.

(*a*) Cost of management should be in due proportion to its capital and work, and it may be reduced by curtailing overhead charges—the pay of the heads of banks should be according to their respective qualifications and should be governed by the bank's annual profit and not one uniform pay, irrespective of its profit and loss.

Large banks should endeavour to diminish their working expenses by rationalisation from within. A thoroughly sound bank direction should aim at obtaining the necessary funds for its working expenses from its ordinary bank business.

(*c*) & (*d*). There should be closer co-operation and pact between those banks which resemble one another in their internal organisation and have affinity of interests, instead of unhealthy competition between them. To forestall wastage of energy and expenses by unavailing and ruinous competition, there should be provision for fusion and amalgamation of banks of the same class and type after separate existence for a definite period. Fusion always tends to reduction of working expenses. Such ultimate prospect of amalgamation between two or more banks would also ensure their mutual support in times of their respective temporary difficulties and would ensure the stability of all of them. Such an arrangement would also show the possibilities, by showing the beginnings on a smaller scale, how and on what principles and arrangements the cash resources of different banks can be mobilised to forestall any emergency or unexpected situation. Legislation on this head may be invited on lines similar to that which provide that all private railways in India after being worked by the respective companies for a certain number of years would vest in the State. So provision may be made that particular banks of each class would be amalgamated with certain approved banks of the same class after a fixed number of years.

Answer 8.—Dividends of existing banks are not high, having regard to the fact that only the capital earns its dividends in exclusion of disclosed and undisclosed reserves, other funds, etc., to the tune of 4 or 5 times its capital. I am not in favour of establishment of new banks except at different centres.

Answer 9.—Yes.

(*Vide* memorandum submitted before the last Royal Commission on Indian Currency and Finance by the Secretary to the Government of India, Finance Department.)

The remedy lies with the expansion of trade and commerce by revival of industry, manufacture and agriculture, by true currency, exchange and banking reorganisation.

Answer 10.—Indian money market organization will largely depend on proper banking organisation which will be able to command price-levels of commodities and stock, besides improving the function of clearing houses in India and improving the credit and face value of Government stocks. London money market should be the ideal of Indian money market in settlement of stock and produce exchanges.

Answer 11.—European banks patronise very largely brokers mentioned in the 'question' and they have friendly relations with them.

Answer 12.—Yes.

Answer 14.—The most marked characteristics of Indian trade industries, etc., are, in the first place, shortage of capital, and, in the second, the high rate of interest required by that capital which they do possess. The task with which Indian banking organisation is faced is to start industrial, agricultural, co-operative banks, etc., on a large scale and to create an influx of capital therein under tolerable conditions. The Government Treasury balances should also be utilised for furthering facilities to commerce, industry and agriculture by banks which will have custody of the same.

(*a*) No.

(*b*) Yes.

(*c*) Yes. Besides I am strongly in favour of utilising the large sums of money lying unclaimed for a long time in Postal Savings Bank deposits and old Presidency Banks.

Answer 15.—The Imperial Bank being only a bank of 10 years' standing, has no past worth the name. Its predecessors had been doing better services than what it has been doing. The three Presidency Banks, being separate, could study conditions prevailing in each Presidency and were able to deal whole-heartedly with all questions in all their aspects affecting the interests of each Presidency, which the Central Board of the Imperial Bank, the costly luxurious bird of passage, can hardly do. It is said that the Imperial Bank of India has paved the way for the concentration of all the money reserves of the country in the hand of one central controlling authority which the 3 Presidency Banks, being divided, could not do. What the Imperial Bank did is not for the interest of the trade and commerce of the country or for the shareholders but to help and patronise the Government currency reserve, etc., by giving them high rate of interest which is a distinct loss to them as a bank (*vide* Financial Secretary's memorandum referred to above.)

The general public or the shareholders have very little chance or opportunity of knowing the work of the Imperial Bank of India, as the bank is so very reluctant to give out their work and representations to Government even to their own shareholders when they were eagerly demanding to know them. The Imperial Bank transacts all Government business and work. It lends money against Government and Trustee-stocks only and sells and buys them as sole agents of Indian States. The middle class general public have to a certain extent been excluded from much benefit from the Imperial Bank of India in ordinary banking business and loans, as it does not deal with any but their approved parties. The Chairman of the Annual General Meeting of the Imperial Bank of India does not review the work it did like other banks and consequently the questions (*a*) to (*f*) cannot be answered with certainty, but it can be safely said that the Imperial Bank of India is neither an independent bank nor a private bank of shareholders, nor a national bank of India, caring at all to further the interests of Indian trade, commerce, industry and manufacture, but lends a helping hand to recognised European firms and banks whose business has been to exploit the vast resources of India to the best interest of the countries to which each of them belongs. What services from the Imperial Bank Indian States and Provincial Governments get are not made public.

Answer 16.—What part the Imperial Bank of India played in the liquidation of other banks can well be illustrated by examples. I mean

the Alliance Bank of Simla Limited and the Bengal National Bank Limited liquidation cases. The heads of the Imperial Bank of India who displayed utter incapacity in valuing the assets of the Alliance Bank of Simla Limited are said to have been instrumental in its unjust liquidation. The worst thing happened in the case of the Bengal National Bank Limited liquidation where advances were made against securities while the Court found the bank could not hold its lien for realisation and thus the assets of the Bengal National Bank were wrongly valued.

Answer 17.—The position of the Imperial Bank of India might be unique but it on no account can be called satisfactory. It is more or less a Government institution, being Government bankers under Government control. It cannot thus safeguard the interests of the shareholders nor can it render sufficient help and encouragement to Indian commerical and trading bodies. Nor is it a bank doing all the work which a Government bank of a country is expected to do. Its constitution is faulty; it has very few expert bankers of European reputation and experience as members of its Central or local Boards. It cannot give better dividends to its shareholders than what exchange banks in India do.

It would be better if the Imperial Bank be relieved of the duties of the bankers to the Government of India and all legislative restrictions be removed, so that the shareholders would be in a position without Government interference to reorganise the bank with competent men of international fame and reputation who could divert its resources towards financing the export and import trade of India now solely in the monopoly of the foreign exchange banks, instead of locking up its resources in half value 3 per cent. 3½ per cent. and 4 per cent. Government stocks.

Answer 18.—The Imperial Bank of India enjoys immense facilities and concessions from Government, municipal and other corporations, etc., and what is more, it enjoys unjustly, undue legislative protection from a shareholder's and public point of view. No claims, demands or proceedings against the old Presidency Banks, either by their shareholders, or their constituents or depositors are allowed to be made by virtue of Section 7 of the Imperial Bank of India Act. This had the effect of forbidding all reasonable enquiries regarding their past accounts at the time of the amalgamation of the three old Presidency Banks with a view to determine what various funds and assets and liabilities of the said old Presidency Banks were taken over by and merged in the opening balance of the Imperial Bank of India, at its birth. The shareholders made a petition to the Governor-General-in-Council (a copy of which is herewith enclosed) for redress but in vain. The petition in question and subsequent correspondence will speak for themselves (copies of the same are attached herewith). These concessions and legislative protections should on no account be continued and no joint stock bank in India should be allowed to enjoy the same.

General Observations on Heading V.

General Banking Organisation and Money Market.

India has no bank with large deposits and capital like the English banks, though its size and population are 15 and 7 times greater respectively than

those of the United Kingdom. Banks are not run in India on Western lines. There is hardly any industrial, agricultural or land mortgage bank in India worthy of her vast resources. The co-operative banking is now in its infancy. All sorts of legitimate trade and industrial enterprises which can develop the resources of a country like India and lead to ultimate success can only be achieved, through sound banking organisation and easy money market. Mere general banking which the Presidency Banks with the other banks used to do, cannot advance India's material progress and prosperity substantially. None of these banks ever financed either zamindars or agriculturists in the scientific development of land which would be helpful in giving better yields, nor did they ever attempt to prevent crops, etc., falling into the hands of money-lenders or profiteers or assisted in their movement to the consuming areas or to the ports to reduce the cost of production. Thus for want of such proper banking, zamindars and agriculturists are forced to the thraldom of money-lenders and profiteers, by the rigidity of Government revenue demand and its sunset law. The meagre banking organisation in India is not only defective and not helpful to India but it largely helps exploitation of the large resources of India by foreign merchants which spoiled Indian industry and manufactures to a great extent. These are the services rendered by the old Presidency Banks and the Imperial Bank along with other exchange and joint stock banks. The Secretary of State for India usurped the duties of a bank being the largest seller of remittances on India without limit of amount and not being able to maintain the minimum limit of rupee exchange fixed by legislation due to balance of trade he had to meet the situation by selling homeward remittances slightly below the minimum rate of rupee exchange. This was not enough. The Secretary of State went further in order to encourage the exchange banks to buy export bills in excess of their requirements and insured them against the risk of a rise in exchange. There were no good bankers who could foresee the great risk Government had been running and warn Government beforehand. The net result of this was that the Secretary of State was obliged to sell out the sterling securities in the Paper Currency Reserve. Legislation after legislation became imperative to meet the heavy losses and the three Presidency Banks were amalgamated into one bank under the name and style of the Imperial Bank of India to befriend the Government of India. The Chamberlain Commission attributed the annual stringency in the money market to the independent Treasury system of the Government of India. The Imperial Bank was then called upon to do this Treasury business free of charge by an agreement to open 100 new branches within 5 years. What is more, when the revenue realisations in land revenue, customs and income-tax, are of a substantial value, and Government lends the substantial amount of the money to meet the seasonal trade demands, at a higher rate of interest than what British Courts ordinarily allow. For this purpose the Imperial Bank has to induce firms and individuals to take loans on bills instead of cash credits. The Government Treasury balances at the disposal of the Imperial Bank for the assistance of the money market does not mean any profit but actual loss to the bank. The Government of India on representation of the Imperial Bank made a refund of only the stamp duty of the Bills. The practice of drawing funds from India to meet "*Home Charges*" by means of bills of exchange drawn on India is a legacy of the East India Company. Upto now no bankers to the Government of India could devise better means than this. There are no banks in India which can rule the money market of India or can increase the mobility of money and its purchasing power.

Conclusion.

I beg to make my humble concluding submission that in the present age of socialism, it is needless to add before the influential and representative Banking Enquiry Committee that mere personal experience without close study of things, which is responsible for this undesirable state of affairs, can only prejudice men. It is, therefore, only reasonable to expect that the members of the Committee, possessing as they do, wide knowledge and experience, will not mind hair-splitting difference of opinion on fine points of economic and financial principles, if found anywhere in this memorandum. It cannot be overlooked that there is no Indian bank or branches of Indian banks in foreign countries. India has no place among the nations of the world in the aggregate volume of her foreign trade. The network of foreign bank branches in India gives the exporter and importer close contacts and grasp of the situation which enable them to help their country firms with every assistance they require in establishing business and trade relations in every trading centre of India. India should have a national bank with national capital which will make Indians as a nation occupying certain place among the leading commercial nations of the world in export and total trade *per capita*. Without an efficient banking organisation and service this position cannot be achieved. Currency, exchange and Government financial policy with legislation should on no account be delayed for this. The peace of a country and a nation depends on the financial prosperity backed by sound banking. In the present state of India, Government should take up the leading position in banking organisation and establish a Government bank like the Bank of Australia with branches all over the country. All district boards, municipalities, post offices, etc., can contain branches of this State bank and it will be seen that it will work like a clock in creating a vast influx of capital in this State bank and its branches, more so, if the State bank pays adequate attention to helping and fostering native industries, agriculture, trade, etc. India is passing through a serious economic illness which must be attacked at the centre so that there will be general revival of ordinary trade and banking. The legislations for special currencies and tariffs are nothing but mere palliatives. Most of the currencies of the world are now on a stable basis and the chances of speculation are negligible. India should have a currency which will bind her closer to England. Nothing but a common money for the respective needs of England and India fitting into one another would materially help in bracing up the agriculture, manufactures, credit and currency of England. With so many years of British rule and connection, India has not attained any position in the international money market and no city in India can claim to be in any way its centre like London. India cannot any longer afford to lose heavily by fluctuating exchange annually. Value of silver per ounce has been steadily going down and silver, if truth be told, has become mere merchandise in the West and has ceased to be international money between the East and the West or perfect money. If India is to aspire commercially in the comity of nations she cannot do so without an international money. India should not be made the sink of silver. The perplexity of the wise has sometimes been resolved by the simplicity of a child. Much depends on the way in which one looks at it and argument is always handy. It is said that the sole reason why India has not, long ere this, had a gold currency was the fear that there was not gold enough for both England and India. But alas! tables are turned. New York has now usurped London's position which is dollar sterling exchange. The Governor of the Bank of England has now to run there often to settle important questions. Salvation of

India lies in a stable international currency and improved banking capable of rationalisation and revival of her dying industries and manufactures through sound banking organisation. The Bank of England influences the price of commodities by bullion movements on foreign account to enable dealers in England to put the price up and down in a remarkable fashion in order to stem the tide of selling and buying in the market. There is no such bank in India which can do the like in the interests of India. Such a bank and gold currency of England should be adopted in India. Now the economic factor has become all important and is more to be considered than merely the political. It is here that the bank plays the important part. The high priest of rationalisation Mr. Henry Ford, pays the highest wages in the world to his workmen and yet produces the very cheapest car of the world. He has done more for the question of unemployment than any Government in the world. Every effort should now be made by co-operation among banks to avoid international competition for the world's supplies of gold and its price. India wants such a bank, be it Central Reserve or National Bank, as will be able to deal with the situation effectively. Currency inflation by Government must go. Uniform international currency and Government banking should take its place.

It is not possible for any man to say positively what it should be and how it can effectively be done.

Supplementary memorandum by Rai Promatha Nath Mullick Bahadur.

In regard to section III, question (1), I wish to add to my written memorandum and say that I am in favour of audit examination of bank accounts by examiners. Such examiners should be appointed by Government (Finance Department) at present and by the Reserve Department when it comes into existence. I suggest this measure, because I do not consider the present system of audit as satisfactory. In order to show how very unsatisfactory it is, I shall give an illustration from the accounts of the Imperial Bank, which I have received as a shareholder, as well as a letter from the auditors on the subject, on which I raised a point.

You will notice in the balance sheet of the Bank of Bengal giving the statement of affairs of the Bank of Bengal as on the 31st of December 1920, the dead stock shown as Rs. 28,50,000. In the statement of affairs of the same concern ending as on the 26th of January 1921, the dead stock is shown as Rs. 1,11,56,000, an appreciation of Rs. 83,06,000. On my raising the question by a letter to the Secretary and Treasurer, I am sent a reply as from the auditors of the bank, which reads in the matter of dead stock as follows:—

> "The value of the Main and Branch Offices in Calcutta and other places is, as you presume, shown under the heading "Dead Stock; there has been no appreciation."

Whatever the object of the bank may have been in inflating the value of the dead stock, and even if it was done for a good and proper purpose, from the point of view of the shareholders the audit system is defective if it failed to bring out directly and without any question this factor of appreciation. When the auditor, after a shareholder has raised the issue,

actually tries to evade and to whitewash the doings of the directors and the manager, it places the shareholders, as proprietors of the concern, in a very disadvantageous position.

This fact was brought out prominently in paragraph 5 of the position of the shareholders of the old Bank of Bengal and of the Imperial Bank referred to in my memorandum under answer 18. I trust the Committee would realise that the position of the shareholders is most unsatisfactory and all that on account of the dereliction of duty by the auditors.

The three old Presidency Banks' final balance sheets as on the 26th January 1921 were not passed by the respective shareholders of the said Banks before their amalgamation into the Imperial Bank. In the circumstances, it is inconceivable how the very first balance sheet of the Imperial Bank was passed by the auditors and their certificate does not disclose anything about this, specially when the shareholders of the old Presidency Banks ceased after the amalgamation referred to above.

It is also very desirable that the auditor of a bank should be one representing a recognised reliable firm instead of being an individual member of a firm for whom the firm in question is not in any way responsible.

With regard to restrictions on banking, in my reply, paragraph 2, where I say that "ordinarily exchange banks and other joint stock banks should not have any restrictions imposed on their business", I may state the general principle, *viz.*, that I would leave the banks free to arrange what sort of deposits they will take, what sort of loans they will give, what sort of paper they will discount, and what sort of securities they will accept, but this freedom is only with regard to institutions registered in India and working under the Indian law. This does not imply that there should be no restrictions on foreign banking concerns, who are established in this country, or wish to establish themselves in this country in future.

No. 32.

Statement of evidence submitted by Dr. L. Nemenyi (Budapest, Hungary), Calcutta.

INTRODUCTION.

Our first aim was to deal only with the problem of industrial banking. When dealing with this subject we realised that it was more or less impossible only to describe the industrial portion of Continental banking. We have, therefore, extended our memorandum to the description of the general principles of the European banking system.

We have tried to put our analysis on European banking as plain as possible before the Central Banking Enquiry Committee and have quoted for reference various descriptive books written about European banking. Time and space have prevented us from entering into details and annexing statistical tables. Just after the completion of this memorandum we received new statistics relating to European banking up to the year 1930, which we shall be pleased to submit to the Committee on request for perusal.

* * * * *

We now wish to point out that owing to the limited time given, we had no opportunity to print the memorandum and beg, therefore, to be excused for the typographical errors which are corrected by hand.

THE PROBLEM.

During the Great War, a strong need for the development of Indian industries was felt. It was recognised early that one of the chief problems of industrial development is the financial question. The Indian Industrial Commission (1916-1918) undertook first to enquire into the possibilities of industrial banking in India. During this period the Tata Industrial Bank was established as an entirely private enterprise with a large capital (Rs. 223 lakhs) which proved to be a failure in a very short time and had to be amalgamated with the Central Bank of India in 1923.

One of the chief sources of the recommendations of the Industrial Commission on industrial banking (page 179, Report of the Industrial Commission 1918) was the "memorandum on banking" submitted by Mr. G. Findlay Shirras, Director of Statistics (pages 796-846 of Volume V, 1919, of the Minutes of Evidence of the Industrial Commission). This memorandum describes the Indian banks, the great commercial banks of Germany, the Industrial Bank of Japan and the trade banks of the United Kingdom and of Spain. In the "Summary" (page 814) Mr. Findlay Shirras recommends:—

(a) The introduction of industrial banks into the Indian banking system.

(b) The establishment of a network of branch banks; and

(c) The development of the present system of banking to meet the changed circumstances brought by the War.

The Report of the Industrial Commission deals in chapter XX (pages 176-186) with the question of "Industrial Finance" and its conclusion is that industrial banks have to be established, but the Commission state that:—

> "We do not feel that we have sufficient material before us to enable us to formulate a definite scheme for Industrial Banks. We ask, therefore, for the appointment, at the earliest possible date, of an expert Committee to consider what additional banking facilities are necessary for the initial and for the current finance of industries; what form of Government assistance or control will be required to ensure their extension on a sound basis."

A number of distinguished authors have dealt with the problem of industrial banking since 1917:—

Tannan and Shah.—Indian Currency and Banking Problems 1917.

G. Findlay Shirras.—Indian Finance and Banking 1919.

K. T. Shah.—Indian Currency, Exchange and Banking 1922.

Wadia and Joshi.—Money and the Money Market in India 1926.

H. Sinha.—Early European Banking in India with some reflections on present conditions 1927.

B. T. Thakur.—Organisation of Indian Banking 1927, III Ed.

B. Ramchandra Rao.—Present day banking in India (under print).

For want of space and time we are unable to go into a detailed description of the above works, so we try to sum up their views in the following:—

> "Industrial banks should be established in India for the sake of floating new industrial companies and for providing existing ones with loans on long terms. The aim of these banks should be to attract deposits on long terms, as well as to issue debenture bonds. They should have a staff of experts to judge the technical and business prospects of concerns which come to them for assistance."

Further the following problems are discussed:—

Whether these banks should be based on State aid or not, whether one Central Institution should be established for the whole of India or one in every province, whether they shall have branches and whether these banks should take up commercial banking.

It is a well-known fact that the Continental banks have ever since devoted a great part of their activities to promote and finance industrial undertakings, whereas British banks have strictly adhered to the principle of providing their clients with short loans. The example of the big banks in Germany has been specially declared as a model for industrial banking.

Dr. Gilbert Slater (Oxford) has recommended in his reply to the questionnaire of the External Capital Committee (Page 21):—

...........the "development" of Indian Joint-Stock banking by the adoption of methods similar to those employed in Germany by the "D" Banks. The above opinion was shared by Sir Dinshaw Wacha (See page 21 of the above report).

Mr. Findlay Shirras' "memorandum on banking" gives us a detailed summary of the German banking system, but he states that his memorandum *"is mainly, if not entirely, descriptive and not analytical"*.

A very good description of the banking institutions of various countries can be found in "Foreign Banking Systems", edited by Parker Willis and B. H. Beckhart 1929.

The greatest work dealing with the history of German banking is:— "Die Deutchen Grossbanken" by Dr. Riesser. Third Edition 1910. A short but precise history of German banking is contained in:—"The Evolution of German Banking" by Leopold Joseph 1912.

We must, however, point out that these works are merely descriptive and not analytical.

The task of our note is to submit an analysis of the Continental banking system to the Central Banking Enquiry Committee, gathering the essentials of this system, as the institutions may vary in some respect from town to town, from country to country, but we feel that there are some deeper principles which characterize all.

Only the results of such an analysis will enable us to go into the details of the future of Indian industrial finance and banking.

FIRST PART.—THE CONTINENTAL BANKS.

General Features.

The economic development of the last 80 years has produced, without exception, more or less similar types of big banks in every large town of the European Continent. The statistics show that these mighty institutions are the survivors of hundreds of banks which have been created during these 80 years and which have failed or have been amalgamated with stronger ones. These big banks were in the struggle for life with the many new banks, the fittest of whom have survived. Their reward is great; they are the leaders of the financial and industrial life of their country, and their influence gives them and their principals an exceptional position.

Their yearly reports show about a hundred big industrial undertakings connected with their concern. They describe how the banks have participated in floating big loans for the State, Provinces, municipalities, and debentures for railway companies, etc. We read that during the last year the shares of various companies have been introduced by them on the stock exchange. Many of these banks also give large mortgage loans to their clients, besides providing the public with every possible credit facility. Their net-work of branches extends their activities to the smallest villages thus helping the development of trade, industry and agriculture.

Their enterprises do not stop at the boundaries of their own country; they participate in floating loans of foreign states or municipalities and they are constantly in touch with the fine and ever-changing mechanism of the international money market. They have branches in various important foreign countries and in the colonies.

The names of the personalities on their Board of Directors are the best proof of their financial strength, their great influence and last but not least of the spiritual capital guaranteed by the outstanding personalities of their leaders.

People educated on the simple lines of British banking must find it incredible, that these Continental banks can carry on such various lines of business which appear to be rather risky and speculative. It is one of our chief objects to explain how a bank can do business receiving deposits on short terms, giving mortgage loans for 50 years, doing transactions on the stock exchange, participating in syndicates and fostering industry, etc., without involving great risks and distributing these risks if any.

As stated above, these big Continental banks are more or less similar to each other, as we will see later on. Whether they have, for instance, a mortgage or produce department or not makes no difference in their principles and in their working.

The inherent principle is in every case unaltered, *i.e.*, these banks of the so-called mixed type might do every possible business which may arise out of the financial needs of economic life. Whether they go in for every possible line or not is a matter of the actual business policy.

Before discussing the various problems which arise out of these complex activities, and before analysing the position of these banks in the economic life of their country and in the world of international finance, we take the opportunity of describing such a bank in general, depicting the model of a bank which deals virtually with every possible business line.

We have to point out before proceeding further that the various business lines which can be dealt with in a manner of routine are transacted in the respective departments, but the higher financial activities, such as floating of State and municipal loans, syndicate operations in connection with the promotion of industrial undertakings, etc., are dealt with by the managing directors themselves with the help of their secretaries.

The various activities carried out by the big Continental banks are executed in the British banking system by various kinds of different firms, whereas a big Continental bank comprises a commercial bank, mortgage bank, discounting house, issue house, company promoter, bill broker and a stock-broker. The next important point is that the *main part* of these banks is similar to a commercial and an exchange bank in the British sense of the word.

General Description.

The main part of a great Continental bank—as described in the preceding chapter—is nothing else but a commercial and exchange bank as understood in the British sense. The function which we call industrial banking in the narrower sense of its meaning, is only dealt with by the managing directors and the so-called "secretariat". The function called industrial banking will be described in the next chapter. We shall now proceed to describe the organisation of the various departments of these banks and their functions. We may make a distinction between business departments, *i.e.*, those which transact various business and show a profit and the administrative departments:—

(A) Business Departments.—

(1) Credit Department,

(2) Stock Exchange Department,

(3) Foreign Exchange Department,

(4) Produce Department,

(B) Administrative Departments.—

(1) Cash Department.

(2) Correspondence,

(3) Current Account and Fixed Deposit Dept.

(4) Accountancy.

(5) Control.

(A) BUSINESS DEPARTMENTS.

(1) *Credit Department.*—This Department deals with credit transactions which are manifold.

(*a*) The most important feature of the credits given is the discounting of commercial bills, as through the rediscount of these bills the bank can always get ready money. The basis of these bills is a real business transaction (*i.e.*, the sale of goods). A manufacturer or a wholesale dealer or an importer sells goods to another—smaller—merchant who signs a draft. The seller if he wishes to realize the money immediately, sells this draft (bill) to the bank. The bank discounts it, paying him the amount *minus* interest. The bank keeps the drafts in its custody and if the bank wants to realize the money before the date of payment has arrived they rediscount it at the Central Bank (Reichs Bank) at the Bank Rate. Smaller banks sometimes rediscount the bills in their possession at the big banks. In Central Europe, banks sometimes send their drafts to foreign towns to get loans against the security of the same. In this case the transaction is done in foreign currency (exchange). The chief feature of these drafts is that they bear at least two signatures, *i.e.*, that of the drawers and that of the acceptors of the bill. In case these bills arrive finally at the Central Bank, they bear 3 or 4 signatures.

(*b*) Credits on current account are overdrafts usually given, without any security, to parties well known to the bank whose personality or firm stands a guarantee for their security. The industrial concerns connected with the bank, and other industrial and commercial undertakings are allowed such overdrafts for a limited period.

(*c*) A very safe way of giving loans are the credits allowed against the security on goods. Some big banks also have big warehouses to store the mortgaged goods.

(*d*) Loans are also given by these banks on the security of landed property for relatively short periods (6 months, 1 or 2 years). These loans are different from the mortgage loans which are described below.

(*e*) Some of the big industrial banks specially in the eastern part of Central Europe (Austria Hungary, etc.), are also working as mortgage banks, giving loans for 25—50 years against landed properties and issuing bonds which are sold mostly in foreign countries and are considered as very safe investments.

The management of the credit department will be described later on.

(*f*) Loans can further be obtained against the deposit of shares and the banks can liquidate these loans by depositing them with the Central Bank, who will grant them an advance against the same.

(*g*) The various forms of acceptance credit are on the same lines as are carried on in the London money market.

(2) *Stock Exchange Department.*—The banks in Central Europe are also members of the stock exchange, buying and selling shares, bonds and every kind of security on behalf of their clients. They make a good profit on the commission as well as on the difference of the selling and buying price margins. This department also transacts the business of the syndicates, thereby making a very substantial profit.

Shares or securities of foreign countries are also bought and sold by this department. The managers of such departments also give advice to their clients with whom they are usually on friendly terms. The share and foreign exchange departments are doing arbitrage business in shares and foreign exchanges, making a profit on the difference in the prices of shares, and foreign exchanges in various towns, closing these transactions over the telephone, or by telegrams. This arbitrage business is done by the bank entirely on its own account. (See the detailed description of Arbitrage in Mr. A. C. Whitaker's Book on foreign exchange 1924, Chapter XIV, pages 397-428).

(3) *The Foreign Exchange Department.*—This is a very important department which sells and buys foreign exchanges on behalf of its clients and does arbitrage as described above.

(4) *Produce Department.*—Some of these banks have large departments, dealing as merchants in different goods as for example; coal, sugar, cereals, salt and even machinery.

(B) Administrative Departments.

These are the cash, current account and fixed deposit, correspondence, accounts and the control departments. The correspondence in some banks is a separate department and in others every department does its own correspondence.

We have now to point out that at present in Europe and America, we find quite a new science dealing with the development and rationalization of administration. Many books are written on this subject and this will have to be studied by Indians to a great extent.

INDUSTRIAL ACTIVITIES OF THE BIG CENTRAL EUROPEAN BANKS.

As described in the second chapter, these big banks have no *Industrial Departments* and the industrial activities are carried out by the managing directors and their secretaries, who form the "secretariat".

Reading the annual reports of these banks, we find that several big industrial companies are connected with them. Now let us view the origin of these connections.

(1) First we shall describe how the banks assist the birth of a new industrial undertaking. Usually a technical or a business expert approaches the bank and places, before the managing directors, the plans of a new industrial undertaking. The managing directors of the bank are well versed, both in judging new ideas in general from every possible point of view, as well as in observing the new client's personality. If the first impression is favourable, one of the special experts of the bank is then called upon to examine the details of the proposition. This expert is usually one of the directors or managers of another industrial concern connected with the bank. If the result of the thorough examination is

favourable, the managing directors of the bank decide to float a limited company and the preparations start quite privately and confidentially. The form of the so-called "syndicate" is usually applied for this purpose. Such a syndicate is a temporary association of various companies and also of private men, formed for the sake of floating the new limited company. This syndicate has a written agreement but of no official or legal character whatsoever. It is more or less a confidential and private sort of agreement between friends and nothing else. Members of the syndicate may be the following: another bank (often another bank in a foreign country or in a different town) and one or two other bigger industrial companies which may have some business connection or interest in the new company. Sometimes for various reasons the State or a municipality may also be a partner of the syndicate. Eminent business men (financiers) are often individual members of such a syndicate. Sometimes managing directors of the companies who are members, also join separately as individual members. The syndicate divides the shares of the new company in different proportions between its members. One member may have a share of 40 per cent., and another—an individual member for instance—only 3 or 4 per cent. If the new limited company has been floated, the members have to pay in their respective shares to the syndicate, but as a rule the shares are not handed over to them, even after payments have been received in full, and as long as the syndicate exists, the shares belonging to it are always kept together. In some cases a part of the capital is not paid in full and the bank advances the balance against the security of the shares (Lombard). The leading members of the syndicate usually become directors of the new company. In course of time when the new company has proved a success, the shares are placed in the market. The time is always chosen carefully, according to the conditions of the share market. The syndicate or rather the stock exchange department of the bank—which usually does the administrative work for the syndicate regarding shares—divides the shares between the applicants, and it happens very often that the applicants can get only one-half or even only one-third of the required quantity. It is a question of business policy as to how many shares of the syndicate will be sold on this occasion. There are cases where all the shares are sold and the members liquidate the syndicate and share the profit according to the percentage of their different shares. This happens mostly in cases where the shares can be sold above par and the syndicate has no special reason to hold any shares longer. Several cases are known where industrial companies appeared to belong to the concern of a bank although the bank had already not a single share in its possession but its directors continued to remain on the Board of Directors of the industrial company and the industrial company remained to be a client of the bank. The number of shares which are actually in possession of a bank or a syndicate are kept very confidential. Often the syndicate sell only a part of their shares and their life is extended for several years. When the price of the shares falls on account of the slackness of the stock exchange, the syndicate buys the shares back at a much lower price knowing that the real value of the shares is higher. Later on when the stock exchange is favourable the syndicate sells the shares again at a higher price, thus making a good profit. The above activity of these syndicates has a very good influence on the fluctuation of the shares, for in their person we find a good buyer in times of depreciation and a willing seller when the prices rise unreasonably. These manipulations

on the exchange are mostly done in a very confidential way through two or three middlemen so that the public cannot guess the movements of the syndicate.

In the balance sheets of the banks we find an item

"Shares in Syndicates"

showing the part of the capital of the bank which is invested in such enterprises.

(2) The above description has explained how these banks give a helping hand in the formation of new industrial undertakings. Again we can also depict several cases, in which industries, that have been working independently for a considerable time, have become connected with these banks later on. Such cases are:—

(*a*) The owner of a privately owned factory dies and the successors have nobody to manage the business on a satisfactory basis and therefore, request the bank to form a limited company as described above. In such an instance the successors might retain a number of the shares—receiving 1, 2 or more seats on the Board of Directors according to the number of their shares—and receive cash for the balance of the value of the stock in trade and goodwill, or they might sell the entire factory to the syndicate thereby ceasing to have any further connection with it.

(*b*) An industrial undertaking might be offered to a bank, in a similar way, if it is in a bad financial condition for want of sufficient liquid funds to carry on the business. But again if the proprietor is found capable, he is usually asked to continue the management in the capacity of a general manager and there are cases in which such concerns, that have been faced with a dark outlook, have eventually grown into a flourishing business enterprise.

(3) Yet again it happens that companies which were connected with a certain bank later on get associated with another bank.

(*a*) A bank buys the shares of an industrial undertaking secretly in the market as it finds that its prospects are very good and the shares are to be had at a low price. When the buyer has more than 50 per cent. of the shares in his hand, he declares his holding in the next general meeting, nominates his delegates on the Board of Directors and the company goes over to the concern of the new bank.

(*b*) It is further possible that the majority of the shares of an industrial company are offered openly through middlemen, as the bank, respectively the syndicate to whom it belongs, wants to get ready money, because they might find that a great portion of their capital is locked up. In other cases again the shares are offered for sale, in accordance with the opinion of the syndicate, if the respective industry has no good prospects and if they want to dispose of the shares.

(4) We have described above how industrial undertakings get connected with a bank. We have now to take up the question as to how these industries are to be financed. Practically every way of allowing credits as described in the preceding chapter, is used for this purpose. Credits for long periods are never given to the industries by these banks, but in case money is needed for extension, machinery, etc., they arrange for a debenture loan or for raising the capital. Now-a-days in the financial circles of Central Europe, it is considered a rule to raise the capital in the above cases if there is the slightest possibility of doing so.

Even debenture loans are now seldom taken in Central Europe and the usual way of obtaining fresh funds is to raise the capital. The motto being: "own capital is the cheapest money."

(5) It is a well-known fact that the banks have a strong control over the industries connected with them. This control does not merely consist of the appointing of one or two of the directors of the bank on the Board of Directors of the industrial concern, but in many cases the bank or one of the industrial members of the syndicate appoints one of their higher employees as a departmental manager, secretary, engineer or accountant to the newly connected industry. Such appointments have two objects:—the first is to have a "confidant" on the staff of the new (or newly connected) undertaking, the second is to place a capable man at the head of such a department which appears to be neglected. This custom also gives great scope to the younger generation in the banks and industries for a good career, and the younger promising employees are often selected as a kind of staff officer who in time will be chosen for higher positions. The managing director and sometimes even departmental managers of the industrial undertaking have to go at certain intervals—once or twice a week—to the director of the bank who is in charge of the respective industry and have to report on all the important events. All questions of the future business policy—buying of raw material, output, prices—are carefully considered and decided during these interviews. Sometimes the eminent personality of the leader of an industrial concern helps him to become a leading figure in the controlling bank and many managing directors of industries are on the Board of Directors of the big banks. Thus the experience and knowledge of all the prominent personalities, of the wide circle formed by a bank and the industries connected with it, are wholly utilised for important decisions. The experience and knowledge of all these directors and managers—let us call it the spiritual capital of the concern—is perhaps much more important for the sound and successful management of the big European banks than the amount of their paid-up capital.

ANALYSIS OF THE CONTINENTAL BANKING SYSTEM.

To analyse the Continental banking system means *to explain* the working of its complicated mechanism and to state the factors through which the existing big banks have successfully survived hundreds of their competitors.

I.—Working of the Continental Mixed Banking System.

The chief principle of the working of a Continental bank of the mixed type is that "*Every line of its activities is self-balancing*".

One author describing the German banking system says that these banks "*have* to depend for their long term investments mostly on short term deposits". If the above had been the method of conducting their business we feel sure that not a single bank would exist in Germany. The banks of the mixed type grant loans on short as well as long terms to their various clients. **The short term deposits are used *only* for short term credits, whereas the loans on long terms are based—without exception—on such resources which can be safely locked up for long periods. Loans on long terms are granted to industry and agriculture in the form of debentures. The debenture bonds which are issued against**

these loans, are sold to capitalists who are willing to invest their money for a long period against a guaranteed interest. There is a great difference between an agricultural and an industrial debenture bond. The value of landed property can be estimated fairly accurately and the return of the same is also more or less unchanging. The value and return of an industrial undertaking may vary considerably and the failure of the undertaking will depreciate the value of the debenture bond to a very great extent. For this reason the interest paid on an agricultural debenture bond is much lower than on the industrial and the first is considered as a gilt-edged security.

We have described, in the preceding chapter, how the banks provide industrial undertakings with their initial capital forming syndicates for this purpose. We have also seen various cases in which limited companies are formed for the sake of participating in or financing existing private concerns. The raising of capital is another method of providing undertakings with fresh capital, thus avoiding new credits.

Further, we have stated in the preceding chapter that the banks invest a part of their assets in these syndicates, that is to say, that a certain part of their assets is locked up in industrial undertakings.

The Continental banks have often been accused of locking up their assets in shares and syndicates, thus conducting their business in a rather speculative way. We wish to quote the view of the most prominent authority on German banking who denies the above accusations. Prof. Dr. J. Riesser in his written evidence to the German Bank Enquiry Commission (1908-9) states the following:—

"The assertion has been made that some outside money and even some deposits are "invested in Syndicate Undertakings or in speculation". This assertion is at once refuted by the fact that at the end of 1908 the sum total of securities, mortgages and syndicate participations at the aforementioned 143 (in 1908, 169) credit banks with as much as 1,000,000 marks of capital was only 1,198,052,000 marks—only a little more than one-third of the capital and surplus of these banks, which amounted to 3,253,673,000 marks. Another two-thirds of these banks own resources would, therefore, have to be invested in that way before there could be any question of any outside money, not to speak of deposits, being invested in stocks (speculations) or syndicate participations". (See "National Monetary Commission Document 407 Part 2, pages 830-31, Washington 1911").

Our next step is to explain how it is possible that these banks can manage syndicate operations on a large scale, although they use only about a third part of their capital and reserves for this purpose. We know that there are often approximately 100 industrial undertakings connected with these banks and, therefore, it sounds incredible that all these syndicate operations can be conducted with such a relatively small capital. The secret of these operations is that the capital invested in these syndicates is constantly changed from one investment to another. We have stated in the preceding chapter that the banks regulate the price, of the shares of their industrial undertakings on the stock exchange, *i.e.*, selling at high and buying at low prices. Further,—as we have stated—the holdings of banks in tre different syndicates is kept very confidentially; therefore, it is clear that through a skilful management, this one-third of the capital is always invested, realised and re-invested in various shares. These changes are done even daily. The shares are sold not only on the Stock exchange but also to foreign capitalists in large quantities. We know of

several cases where banks have sold all the shares of undertakings with which they were known to be connected. Even the directors of these industrial undertakings were not informed of the fact that the bank which controlled them did not possess a single share.

II.—THE MONEY RESOURCES.

(1) *Deposits.*—As described above, the main part of the activities of the Continental banks is commercial banking. This department is similar to a British joint stock bank, *i.e.*, receiving deposits and granting various kinds of loans on short terms to its clients. In connection with the question of deposits we have to draw your attention to the fact that the increase of deposits all over Europe, including Great Britain, is chiefly due to that development of banking, which resulted in the emerging of a few great banks. It is sure that banks of such high standing as the "Big Five in London", the "D" banks in Berlin and all the other large banks, and their numerous branches in Europe, can attract far more deposits, than would be attracted by a great amount of smaller banks, even if they have more capital. We will deal later on with the question of the amalgamation of banks.

One of the greatest maladies of the Indian economic life is the hoarding habit. In the last century when there were hundreds of small banks existing in Europe the hoarding habit was very strong, especially amongst the rural population who kept their money hidden in secret places and often underground. Failures of banks at that time were very common which were often caused by runs without any reason. Only since the development of the present day big banks, do we find that the deposits have increased considerably.

(2) *Bonds and shares.*—We have stated above, that European banks do not use their deposits in granting loans for long terms to industry and agriculture, but that against these loans they issue debenture bonds. It has been stated in connection with the stock exchange department of the Continental banks that the managers of these departments are on friendly terms with their clients, and give advice regarding investments. The same friendly connections exist between the branch managers of the banks and the public. Through this personal contact the banks have a large field in issuing and placing their various bonds and shares amongst the public. In this connection we find again the advantage of the Continental system of banking of the mixed type against the British system. It is natural that the investing public has far more confidence in bonds and shares of companies founded and controlled under the expert leadership of big banks, than in stocks and shares of undertakings, established by a company promoter. Furthermore, the managers of these big banks can judge the conditions of the money market and the stock exchange far better than a company promoter or even an issue house. The bonds and shares are often sold to foreign countries as the strong international connections of the banks enable them to place various securities in foreign markets. The international connections and the advantages and disadvantages of foreign loans and liabilities will be discussed later on. The chief point is that the investment market in the Continent is entirely controlled by the banks, which is a much better system than that of the British. British authors withou exception admit this fact.

(3) *Money Market.*—Besides the deposits of the clients and the investment market, the banks rely upon the money market to a certain extent for their short term accommodation. Many banks have at times superfluous means which they cannot use for the time being. These amounts are usually loaned to other banks either on call or for a fixed time of 1, 2 or 3 months.

Beside the above transactions, we often find that the banks re-discount their bills at bigger banks (see general description: credit departments).

We do not wish to go into the details of the working of the money market. We have only given a general description about discounting of bills. We have not touched on the complicated questions of acceptance credit as the discount markets is not even established in India.

(4) *The Central Bank of Issue.*—The most important resource of the banks in Europe is the possibility of re-discounting their bills at the Central Bank of issue. This advantage is not only used as a money resource but is also the greatest factor of the fluidity of the Continental banks. Every bank keeps, a large quantity of the bills which it has discounted, in its portfolio. In case of emergency when all the other resources are blocked, the Bank of issue is always in a position to supply ready money by re-discounting these bills. The importance of this fact will be dealt with specially when discussing the Indian banking problems.

(5) *State Loans, etc.*—The activities of the big Continental banks in issuing loans for the States, provinces and municipalities have also to be described in this chapter as sometimes parts of these loans are kept for a period with the bank in question; thus the issue of such a loan becomes indirectly a money resource.

As the banks on the Continent are also the greatest financiers of their countries it is natural that all the various kinds of loans both short and long ones go through their hands. The system—as described in connection with the placing of bonds and shares in the market—enables the banks to be the best intermediaries for such transactions. These loans are placed in the country or in foreign money markets according to the prevailing conditions, and in the case of large loans the banks form syndicates, similar to those described in the chapter dealing with the industrial activities of the banks.

III.—Standing of the Continental Banks.

The position of the big Continental banks in the economic life is quite different from that of the British banks. The latter satisfy only a limited portion of the financial needs of the country, whereas the big Continental banks extend the sphere of their activities covering every field of finance and enterprise. Mr. Findlay Shirras states that the big German banks "are, as it were the General Staff of German Industry, the brains of the Industrial Army" (See page 815 Minutes of Evidence, Volume V, Indian Industrial Commission, 1919). We may safely extend the above remark and say that the Continental banks are the general staff of the entire economic life of their country.

As we have decided to analyse the Continental banking system we have to answer questions which are not usually dealt with in the descriptive books on banking. These works state only facts which are based on statistical statements. We—on the other hand—wish to put before the Central Banking Enquiry Committee a thorough analysis of the working

of the banks on the Continent and, therefore, have to take into consideration the personal and even the psychological questions connected with Continental banking problems.

In the British banking system which is much more simple and less complicated than the Continental, the personality of the leaders has a far lesser rôle than on the Continent. The manifold activities of the Continental banks require selected leaders. Just as history and politics are governed by outstanding personalities, the figure of the Continental bank leader has to be of a prominent character to be able to control various business lines. Judging daily the problems of credit-question, stock exchanges, foreign exchanges, industries and trade, he has to control his bank, like a prime minister. It is often asked how it is possible that continental banks can take up safely so many lines of business, many of which seem to be rather risky and speculative. We have tried to explain in the chapter on the "Working of the Continental Banks" the principle "that every business line is self-balancing". We must, however, point out that a certain portion of the activities of the Continental banks cannot be explained. nor analysed, as these activities solely depend on the genial personalities of their leaders.

We have to emphasize particularly the importance of the leading personalities in connection with the Indian banking problem and we shall revert to the above in the respective chapter on education. The problem of banking education in Europe will be dealt with in connection with the Indian educational problem.

Groups.—If we compare Indian banking, finance, industry and trade with that of the Continent, we find that one of the chief differences is that the economic units in India—whether they are banks or industrial undertakings, etc.—are standing isolated, whereas in Europe we find that these units are connected with each other in many ways. We have referred to the intimate connections of industry and banking on the Continent, but have also to point out that the different banks are connected in various groups. In many syndicates banks of the same, or even of foreign countries are united for various purposes as described before. The personalities of the Board of Directors of the Continental banks are the best proofs of their international connections. On the Board of the Directors of the biggest Hungarian Bank, we find; one British, one Dutch, four French, one German, and three Austrian members. There are a few prominent groups of banks extending all over Europe. One of the best known and strongest is the Rothschild group. The largest State Loans in Europe were and are still floated by this group. The advantages of these groups and concerns are great. Banks and undertakings connected with a strong group can face many more difficulties than the isolated ones in India.

It is the duty of the controlling banks to judge in times of depression whether an unprofitable undertaking should be assisted or liquidated.

IV.—DEVELOPMENT OF THE BIG CONTINENTAL BANKS.

The evolution of banking is similar all over Europe including Great Britain. Hundreds of banks have been established during the last century and the beginning of the present, out of which only a few have survived. These banks are those big banks to which we have referred throughout our memorandum.

Let us now analyse the causes and consequences of this process. It appears very easy to establish a new bank, but when founding an industrial undertaking, difficulties are met with in the first step. This is one of the causes why so many banking institutions founded during the last 100 years had a very short life.

We have referred often to the importance of the personality of the bank leaders, and can, therefore, safely state that the prosperity of the banks which have survived was entirely due to the outstanding talents of their managers. Studying the history of the European banking system we see that practically all the banks which finally emerged and became great institutions had to experience times of difficulties caused through bad management and general depressions. The few banks which became gradually stronger and stronger extended their connections in various directions. They have taken up more and more business lines, they have affiliated or amalgamated various smaller or weaker institutions and they have built up in the course of time an industrial concern.

In this connection we have to point out two main points:—

(1) Many authors and even commissions (Industrial Commission, External Capital Committee) dealing with the Indian banking problems suggest that various kinds of "*new*" banks should be established. In opposition to the above suggestion, we have to emphasize that the fundamental fact of the history of European banking is that the great banks of Europe were developed gradually from small beginnings as stated before. We will refer—in the chapter on "Indian Banking Legislation"—to the doctrines of sociology from which we learn that big institutions if created suddenly, even if aided by the State, are entirely artificial, and will in all probability pass out of existence after some time.

(2) We have stated above several times the importance of personality and personal connections. We have referred to the fact that the economic units in India are standing isolated in every respect, whereas in Europe the greatest factors of the development of the big banks are the personal and "friendly" connections of the directors with the various leading personalities of the economic life at home and abroad. The building of syndicates and groups, etc., are always planned in a confidential way, between business friends whose friendship is generally a personal one too.

It is clear that only such friendship, based on mutual trust, makes it possible to deal with great difficulties and to solve problems in a satisfactory way. A strong personality is the only basis of success when concerned with foreign loans and connections. We have to refer to the fact that after the War small countries like Austria and Hungary although weakened by the Great War by losing the greatest part of their territory, and by the depreciated exchange, etc., have obtained large loans, without which they would not have been able to build up their economic life again. It is clear that only the most prominent personalities could have impressed foreign capitalists to such an extent that they have taken the responsibility of issuing such loans to these countries.

A few banks have gradually emerged out of weaker ones in every country and the process of amalgamation has started. As we are not writing the history of the Continental banking system we do not wish to go into the details of this process and believe that it will be sufficient to quote Sykes' statement on the Amalgamation Movement in English Banking 1825—1924, that the grand total of the various amalgamations has amounted to 552:

Dr. Riesser describes the amalgamation of the German banks on pages 666 to 698. The process of amalgamation was similar in every European country.

V.—THE ADVANTAGES AND DISADVANTAGES OF THE CONTINENTAL BANKING.

System.—Our above descriptions and analyses have pointed out to a certain extent the advantages and disadvantages of the Continental system, but we find it necessary to sum up these points systematically, as later on when discussing the Indian banking problems, we will have to refer to them.

A.—Advantages.

(1) *Viribus unitis* —There is no doubt that the outstanding advantage of the Continental banking system is that it unites all economic forces of the country which work systematically, which means that the output of the entire economic mechanism is far greater than in countries where all economic units are isolated.

(2) *International connections.*—The international connections enable the banks to draw funds when needed from any part of the world and on the other hand to utilise superfluous capital in countries where it can be safely invested. We feel sure that the problem, whether foreign capital should be used or not, cannot be decided, because the problem is really not correctly formulated in the above form. There are creditor countries and there are debtor countries at certain periods. Debtor countries are forced to take foreign loans. Creditor countries have to seek for investments in debtor countries. The problem is to find the right methods of developing a debtor country gradually into a creditor country. There are certainly cases where a debtor country can become a creditor country with the help of foreign loans. We do not wish to go into the details of this problem but will revert to the same in the second part when dealing with para. 14(*a*) of part V of the questionnaire of the Indian Central Banking Enquiry Committee.

(3) *Distribution of Risks.*—A bank or an undertaking which is not connected with a concern or group, *i.e.*, which is working on its own ,has to run the constant risk of failure perhaps through a slight difficulty. It often happens that banks or industrial undertakings which could have been saved through a relatively small credit have failed, as they had no chance of obtaining the same. We have already remarked that the groups and concerns give every help to its members to overcome difficulties, if the future of the undertaking is a promising one. The importance of this advantage will be fully taken into consideration when dealing with the Indian economic problems. The method of creating syndicates is a remarkably good one for the distribution of risks. The total capital and credit of the members of a syndicate is usually so large in comparison with the capital needed for the new company that the risk which accompanies every new undertaking is distributed to such an extent that the first difficulties can be overcome without the fear that the founders will lose their patience even if they have to wait for a long time for the first profits.

(4) *Judgment of credits.*—The most important point of banking is to judge the standing of the clients who apply for credit. The Continental system helps the management of a bank to a great extent to judge when credits should be given. The greatest clients of the big Continental banks are their own industrial undertakings. The standing of these undertakings is thoroughly known to the controlling banks. Further, through the help of their numerous undertakings the banks are in a position to receive detailed information about external clients, as most of them are connected through their profession with one of the several undertakings of the bank. It is natural that an industrial undertaking can judge the standing of a client dealing in the same business line far better than a banker. In this connection we may also point out that through their industrial concerns the banks have a constant clientele which is a sure basis for the extension of their commercial banking business.

(5) *Spiritual capital.*—The Continental system has the advantage that through its concerns and groups the leading personalities of the economic life are constantly in touch with each other and so the proverb "*Viribus Unitis*" is utilised also in the spiritual sense. It is a well-known fact that in the banking line—as it requires no special technical knowledge of industry—the experience and general intelligence of the leaders is even more important than the amount of the paid-up capital—as referred to above. The constant meetings of the members of the concerns and groups is similar to the work of a Government Commission, and besides the daily routine, the general questions are widely discussed.

B.—Disadvantages.

(1) *Risks of the mixed banking system.*—We have referred to the fact that the Continental banking system has been accused of conducting its business in a rather risky and speculative way. We have quoted Professor Reisser's statement before the German Bank Enquiry Commission, regarding the accusation of investing the deposits in shares and syndicates. In the beginning of this century there were statements made in Germany, that the deposits of the public were not safeguarded by the big banks and that special legal regulations were necessary. Some of these reformers went as far as to propose that only special deposit banks which are established and controlled by the State, should be permitted to receive deposits. The German Banking Enquiry Commission has undertaken the task of enquiring into this problem under the able Chairmanship of Mr. Havenstein, President of the "Directorium" of the Reichs Bank. The 6th question on the question sheet of the above Commission dealt with these problems. The chief part of this question asks—

> "Does it seem warranted in the public interest (and upon what grounds?) to take care by way of legislation of the security and fluidity of the investment of deposits and savings?"

The Commission, after discussing the above problem from every point of view, has concluded that the disadvantages of the German banking system are not "so deeply rooted as to render it necessary to set fixed limits by way of legislation, limits which are likely to put a restraint upon that freedom of movement which is, after all, indispensable to living

forces". (See the concluding words of Privy Councillor Havenstein, page 799 of the Volume already quoted.)

Professor Reisser has summed up his opinion as under:—

> "The thing upon which the whole case turns, is the honesty, trustworthiness and ability of the bank management". (*Ibid*, page 871.)

We may add to the above that the War and the post-War times with their great financial, currency and exchange difficulties have proved that the management of the big Continental banks is in such hands, that although the system is very complicated, the banks are in a position to safeguard the interests of their clients, far better than any artificial restrictions could.

We will revert to the above problem in connection with part III (Regulation of Banking) of the questionnaire of the Central Banking Enquiry Committee.

(2) *Fears of a banking monopoly in connection with the amalgamations of British Banks.*—The concentration movement in England—which led to the emerging of the Big Five—brought about the opinion that a money trust might be established. To discuss this problem, the Treasury Committee on Banking Amalgamation was appointed by the Chancellor of the Exchequer in March 1918.

The report of the Committee states that against "the possible dangers .... some measure of Government control is essential".

The bill which was brought forward on the basis of this recommendation was withdrawn as the banks have entered into an agreement with Government that no further amalgamation will be made without the consent of the Treasury. (See "Foreign Banking Systems", Willis and Beckhart, pages 1163-65 and 1239.)

In this connection we may state that in the last year the two largest German banks have amalgamated (The Deutsche Bank and the Disconto-Gesellschaft) and that the public opinion was not against it.

SPECIAL BANKS IN THE EUROPEAN BANKING SYSTEM.

The preceding chapters have described the general features of the big European banks of the mixed type. We find that the name "mixed type" is a very expressive one, meaning that these banks can do every kind of business. On the other hand foreign students of European banking usually point out the existence and importance of "special banks". We have not mentioned these special banks in the preceding chapters as their existence and working can be explained far better after the description of the banks of the mixed type. Such special banks are:—mortgage banks and banks for the finance of certain lines of industry.

(1) *Mortgage Banks.*—As mentioned above, these banks grant loans against landed property and issue mortgage bonds on the basis of these loans. Whether this business is done through the mortgage department of a big bank or through a special bank, handling only this one line of business is practically the same, as the principle is unchanged. We shall discuss in the second part the problem—which of these two types is suitable for India. Anyhow we have to point out that these special mortgage

banks are as a rule connected with the big banks and with international groups. In some countries (Germany) the mortgage banks are controlled by the State and are governed by special legal regulations.

(2) *Banks for financing special lines of industry.*—These banks have no general importance to the student of European banking. This type of bank is usually founded by big banks to conduct a portion of their industrial activities under a separate specialised form of building syndicates for certain purposes. Such banks are established, for instance, for the finance of railway companies, textile industry or motor car industry, etc.

(3) *Industrial banks as described on pages 1 and 2.*—We have to point out that such industrial banks which are established to grant loans on long terms to industrial undertakings and are working individually, are not in existence in Europe and the few experiments which have been made in Europe have soon failed, similarly to the failure of the Tata Industrial Bank.

It will be interesting to note that such a bank, called the "Central Bank of the German Industry", is now under liquidation before it has really started its activities. This bank was established in Berlin in 1928 with the sole purpose of financing industrial undertakings, with a capital of 120 lakhs, and her founders were different German State banks and private bankers. The idea was that this bank should issue bonds as much as ten times her capital and advance loans to industrial undertakings, on long terms against mortgage. We cannot go into the details of the failure of this bank, but wish to point out that its establishment was absolutely artificial and that the big German banks were from the beginning against this unreasonable idea.

The only conclusion that can be drawn of the history of the development of European banking is that banking, just as any other part of the economic life, can only develop and flourish through an organic growth and not through artificial aids.

PART II.—THE INDIAN BANKING PROBLEM.

The analysis of the Continental banking system makes it possible for us to judge the Indian banking problem from quite a new point of view.

(1) *The Central Bank of Issue.*—There is no doubt that before the establishment of a Central Bank of issue no further development can take place. The future Central Bank (or Reserve Bank) must have the sole right of note issue, must be entirely a Bankers' Bank and must also give every facility for discounting bills. Whether the Central Bank should be a shareholders' bank or a State bank or of the mixed type is of minor importance from an economic point of view, and the importance of this problem seems to lie entirely in certain legislative factors.

(2) *The Indian Joint Stock Banks.*—The present development of the Indian joint stock banks has reached such a stage, that out of the hundreds of banks which have been established in the last decade in India about 5 have successfully emerged and about another 5 have managed to proceed along. Dozens and dozens have failed, many others have been liquidated and there are still many small banks just carrying along somehow. This shows the same manner of development as has been found all over the world.

The only possible solution of a further development is, that the existing 5—10 big banks should extend their activities and increase their capital in order to raise their standing and to gain the confidence of the public, and so to obtain the rôle of the big banks in Europe. We have to object strongly to the idea that "new" banks should be established as a new bank always means a great risk and as a rule out of many new banks only very few survive.

The extension of the existing banks cannot be obtained through legislative measures, nor through certain "recommendations". The only possible way is, for the leaders of these banks to try *and connect such prominent personalities with their bank*, as is done in Europe. On the Board of Directors in Europe we find the greatest names of the landed aristocracy, of late famous ministers or professors of Universities, leading politicians, captains of industry and representatives of foreign financial groups. As long as the Boards of the Indian joint stock banks do not show names of similar standing the Indian banks will never have the same position and influence in their country as the European banks. The method of procuring the service of such prominent directors will depend entirely on the impressing personality and skill of the leaders of the banks, as such connections can only be obtained through individual canvassing. If some of the banks succeed in having some of the most prominent men of India on the Board of their Directors, then these banks can gradually *increase their capital*. The public will surely show greater interest in buying the shares of a bank which has prominent directors. With the help of leading financiers, syndicates can be organised to guarantee the new issue.

The *second step* should be the *establishment of a network of* branches. It is of the utmost importance that the existing banking institutions of the country should be utilised. During the amalgamations in Europe, the establishment of branch banking was started, proving that the natural way of the extension of banking is to connect the existing local banks or bankers with the big banks. A new branch should only be established in places where no suitable existing institutions are to be found. It will often happen that the local banks or bankers will treat the extension of the big banks with hostility, as they will be afraid that the time of high interests and large profits will be over. If a friendly arrangement is not possible, the strong but reasonable competition of the new branch bank will soon induce the local bankers to get in touch with it. It is of the utmost importance that the branches shall utilise, as far as possible the experience of the local bankers. A manager coming from the head office will find it rather difficult to handle the various local problems successfully, owing to the variety of languages and customs.

It will be preferable in the beginning to have joint managers *i.e.*, a local banker and a manager, who is sent out from the head office. A large amount of branches all over India will enable superfluous capital to flow to poorer parts of the country thus also giving a proper regulation to the rates of interest.

Another step of the extension of the Indian joint stock banks must be a further participation in *the finance of foreign trade*. We are aware of the difficulties which will arise through the starting of foreign exchange departments, but we feel sure that these difficulties will not be greater, than those of the establishment and development of these banks. The establishment of a few branches on the Continent, in England and in

America, and in towns which have a great export and import business with India, might be considered after some time and also the establishment of friendly connections with the great financial groups of the world.

There is no doubt that after the establishment of a Central Bank the *discounting of bills* will be one of the most important business lines of the joint stock banks.

With reference to paragraph 9 of part V of the questionnaire of the Central Banking Enquiry Committee, we have to point out that there is no need to be afraid, that should discount possibilities exist in India a sufficient quantity of suitable bills will not be found. We have to mention that some Continental importers have carried through the principle of allowing credit to dealers only if they accept a draft even when buying from stock. Several Indian dealers have objected in the beginning, but now they accept the drafts in order to obtain credit. Now-a-days, of course, there are very few commercial bills in circulation, for the simple reason that there is no demand for them. At the very moment when the future Central Bank will re-discount bills, the joint stock banks will draw the attention of their bigger clients to the fact, that should they get drafts accepted when selling goods to their clients, a new resource of credit will be opened to them. The consequence will be that the wholesale dealers when selling goods to retail dealers will only allow credit against the acceptance of drafts.

(3) *Industrial Finance.*—The methods described in the first part as the industrial activities of the big continental banks, are carried out in India through the big firms which act as managing agents.

The existing big industrial undertakings in India were practically all created by firms whose activity of financing and controlling industry was covered by the plain name of Managing Agents. All the big cotton and jute mills, iron and steel works, tea gardens, collieries and the greater part of the electric supply companies and light railways, etc., were established and controlled by the Managing Agents. We can even go as far as to state the problem of industrial finance is far better solved in India by the existing system, as in Great Britain. Certain minor disadvantages with which the managing agents have been accused are practically the same as the slight disadvantages of the Continental system, but its advantages outweigh the disadvantages to such an extent that it can be safely stated that this system must in any case be accepted as the basis of any further development of industrial finance in India. If a big firm, acting as a managing agent of several industries, has a department for commercial banking, then no difference between such an institution and a big Continental bank of the mixed type could be discovered.

The future finance of big industries in India will and shall remain in the experienced hands of the managing agents, and there is no necessity to establish "new" industrial banks! We will deal later on with the finance of the smaller industries. We have stated on several occasions that actually the greatest drawback of the economic life in India is the fact that various economic units are isolated and that the advantages of the co-operation of the different economic forces of the country cannot be fully utilised. If the development of the joint stock banks will proceed in the way described above we hope that there will be a close co-operation between the big banks and the various managing agencies and we see no difficulty—when the Indian banks will have larger capital—in

introducing, later on, a similar system of building syndicates for new issues as in Europe. Of course, in India this development must come from the other—*i.e.*, the industrial side, as the managing agents have in this country more experience in handling industrial undertakings than the banks—which are built up on the basis of the purely commercial banking system—will ever have. There will be no difficulty for banks in joining such syndicates with a relatively small part—¼th or ⅓rd—of their capital. The advantages of such a system will be, that the attention and the confidence of the public will be drawn far better towards the subscription of the new issues than through the activities of company promoters. A closer co-operation of industry and finance will be of a great advantage to both.

(4) *Agricultural credit.*—The solution of the problem of agricultural credit is far simpler than that of industrial finance. No other way of agricultural finance is possible, except that special mortgage banks will have to be established or the existing banks will have to open mortgage departments and that against the mortgage loans, debenture bonds will have to be issued and sold. As pointed out throughout our memorandum we are very much against the establishment of "new" banks and, therefore, we would recommend, for various reasons, that if possible, the existing banks should open mortgage departments. First of all, in the near future India will not have enough banking experts to be able to establish a large network of branch offices of the commercial banks, and furthermore, to find the right men to manage new mortgage banks. Secondly, it will not be enough to have a few mortgage banks in the big centres, but the activity of these banks will have to be extended all over India.

It seems, therefore, most unreasonable to recommend the establishment of new mortgage banks with a separate network of branches, as we feel sure that if a mortgage department is attached to the existing big joint stock banks, then the present and future organisation and branches of these banks will be able to deal far better with the demands of the agricultural clients than to take the risk of the establishment of "new" banks. One must not forget, of course, that the possibility of agricultural and other mortgage loans is really the problem of an investment market which can take up the debenture bonds.' We shall discuss the question of a proper money and investment market and India's connections to foreign money markets, in the next chapter. The finance of small industries will possibly be taken up by the mortgage departments of the local branches of the big banks, as the finance of smaller industries might be far better based on mortgage loans than on other possibilities. [See the description of the Japanese "Local Banks for Financing Industry and Agriculture, page 821" Parker Willis, etc. These local banks have been amalgamated with the Central Institution (Hypothec Bank of Japan) after 1921.]

The handling of mortgage loans whether granted by special banks or by the mortgage departments of the existing joint stock banks, and the issue of debenture bonds, will have to be controlled by strict legal regulations. In Great Britain the finance of agriculture was entirely neglected. This problem was only discussed since the "Report on Agricultural Credit—Ministry of Agriculture and Fisheries (1926)" was published, (See pages 1285-6 Parker Willis).

(5) *Money Market and Foreign Connections.*—Very little can be said on the future of the Indian money market. It is a fact that there is no proper money market at present, but in case the Indian banking develops as expected, a corresponding money market will naturally follow this development. A money market can neither be "established" nor organised nor can any suggestions be made for the improvement or extension of the present money market. A money market is not an institution, it can develop only as the consequence of the development of the entire banking system. We have already stated above that a certain necessity of linking up the future Indian banking system with the various financial groups of the world will arise. There will also be instances where it will be advisable to place Indian shares, bonds, etc., on foreign markets. We are aware of the fact that now-a-days there is in leading financial and industrial circles of India a very strong objection against increasing the foreign liabilities and borrowings of this country. Although fully appreciating the opposite views, we have to point out that in case the investment market will not be strong enough to take up shares or bonds of Indian undertaking or agriculture, it will be advisable to place them in foreign markets, if possible, and not to lose the possibility of fostering industry and agriculture. Later on, if the investment habit grows in India, these shares and bonds can always be bought back.

(6) *Co-operation amongst Banks and Bankers (see para. 1/a part V of the questionnaire).*—The greatest difficulty that we find at present is that there is no co-operation between banks, bankers and industries in India. We have pointed out that the greatest factor of the astonishing development of industry and finance in Europe was due to the friendly co-operation of the leading financiers and captains of industry all over Europe. Therefore, we can safely say that artificial associations will not help much. What is really needed is "friendly" co-operation, based on *personal* friendship.

As we are strongly against "new" institutions we suggest that as India has already a very well organised Federation of the Indian Chambers of Commerce, the Bankers' Association should be organised as a department of the same. Trade, industry and banking have to be strongly connected with each other to obtain an organic development. If the Indian Chambers of Commerce would have three departments accordingly, working in a close co-operation, we believe the result would be a very good one.

(7) *The Problem of State Aid.*—State aid, in connection with the solution of banking problems, means a "direct help" of the State to certain (State-aided!) banks, by subscribing their (or a part of their) capital or guaranteeing a certain dividend, as recommended by several authors in India. We have to emphasize that every *direct* State aid in connection with banking and industry is absolutely artificial, and one of its worst results—even in case of success—is that the natural development of the economic life is changed. There is no doubt that the economic institutions of a nation can only be built up by talented leaders assisted by an army of strenuous workers. On the other hand indirect help, *i.e.*, proper legal regulation, favourable to the essential demands of banking, (or industry) can

do a lot of good. Although State aid is always artificial, the Japanese banking system proves, that in the beginning of a decided policy to help the development of banking and industry, a certain experiment of granting State aid might be undertaken, specially when fostering smaller industries in the provinces.

Government departments cannot treat business matters in a business-like way, whereas managers of banks can judge far better the standing and prospects of industrial undertakings which require capital. We feel sure that it is rather important to find a way for the natural development of such a banking system which will satisfy every financial need of the country, so as to avoid the State acting as a banker.

Our above suggestions regarding the future of Indian banking show a natural way of development, which is contrary to the artificial ideas of the establishment of various "new" banks.

The natural development of Indian banking as described in our memorandum enables the big banks of the country to be linked up with the indigenous bankers and various co-operative banks and societies.

BANKING EDUCATION.

I.

Part IV, section 8, para. 2 of the questionnaire of the Central Banking Enquiry Committee invites replies to the following question:—

"Do you attribute the slow development of banking and specially branch banking to absence of trained men in India?"

Although the above question is the last in the questionnaire amongst those relating to education, it really is the most essential, and has to be decided, before going into the details of banking education.

It can be safely laid down as a principle based on wide experience that *there is very little connection between the development of banking in a certain country, at a given period, and the existence or not of a specialised banking education.* This principle may be extended also to the relation of the development of industry, commerce and trade and education in general.

Indian, as well as European and American experience, gives striking examples with regard to the above statement. But it has to be emphasized that economic, commercial or banking studies cannot and should not be compared with the study of scientific subjects, such as medicine, engineering, chemistry, etc., for the simple reason, that there is no connection between the success of a banker and a merchant and his economic or commercial education. A successful engineer, surgeon, chemist, etc., must have a good theoretical foundation, whereas everybody knows of dozens of examples of successful businessmen, who are entirely "self-made men" and most of these "self-made men" have enjoyed very little education in their youth, but have usually read and studied a lot in their later days. Self-education, as a rule, matters far more than school education!

In India, there are prominent examples—without mentioning the names—of great business men who are leaders of famous industrial co cerns and who are well known to everybody in the country; they had v little or hardly any school education.

A striking example deserves notice in this connection and can be specially observed in Calcutta. It is a well known fact, that during the last few decades the major portion of indigenous trade, commerce and industry has passed into the hands of Marwaris chiefly and Gujeratis and to a certain extent also into the hands of Parsis and Sindhis. Most of the Marwari and Gujerati business men, who come to Calcutta are absolutely uneducated, and it is interesting to observe how these merchants gradually pick up their knowledge of English and also, how they learn to read and write. The success of these invaders is so intensive that in the bazaars of Calcutta one can find many and many streets where there is not a single Bengali dealer. It has to be pointed out on the other hand that the thousands and thousands of graduates of the various Universities are glad to accept any job, as a typist or clerk at a very low salary. Thus the uneducated Marwaris, etc., enjoy the profit of their successful business and the graduates of the Universities, B. Com.'s or B.A.'s of economics are working for very low salaries without the slightest possibility of getting along.

There is no doubt that the backwardness of Indian banking cannot be explained as a consequence of lack of education, but that development of banking depends entirely on a few talented men who are able to build up strong institutions, and to manage them successfully.

Mr. S. N. Pochkhanawalla's name may be mentioned in this connection.

The details of banking education in India and in Europe will be dealt with in the next section.

The slow development of banking in India cannot be connected with the question of education, and it is entirely due to different reasons. To discuss the real causes of the backwardness of banking in India is one of the most important subjects which will come up before the Central Banking Enquiry Committee.

II.

Comparing the question papers of the "Associate Examinations, 1929," of the "Indian Institute of Bankers," one has to emphasise, that 99 per cent. of European bank assistants, clerks, etc., on the Continent have never gone in for studies of economics and currency of the same high standing, and that, they could not answer questions relating to the economics of their own country of a type, similar to those asked in this country.

It is necessary to quote a few questions (the question papers may be seen on pages 67—96 of the "Journal" of "The Indian Institute of Bankers", Volume I, No. 2, April 1930).

"Describe briefly the provisions of the Bank of England Act of 1844. To what extent does the present system of note issue in England resemble and differ from the system established by that Act?"

There is no doubt that 99 per cent. of French, German, Swiss, etc., bank employees could not answer a question relating to the history of the bank of issue of their own country and that they have very little or no knowledge of the legislation connected with note issue and currency.

Another question:—

"Consider the case for establishing a Central Reserve Bank in India. Do you favour the conversion of the Imperial Bank of India into a Central Reserve Bank?"

It is peculiar, that young and inexperienced men should be asked to answer such questions. The decision of this problem is most difficult and complicated, and will give many months of hard work to Government, politicians and to economic experts of the highest standing.

The educational facilities in Indian Universities relating to economics, banking, currency and commerce, etc., are on a higher level at present than those in Central Europe, and the students who have passed such examinations will not have the slightest chance of utilising their knowledge even if India already had a most flourishing and extended Indian banking system.

In this connection it has to be pointed out, that the knowledge acquired by an engineer, chemist, doctor of medicine, etc., is of a practical use and he has to rely upon his studies every day, but a young man who after passing his examination as a B. Com. or a B.A. of economics will suddenly find when getting a job in a bank, that all he has to do for the next 10 or 15 years consists of mere clerical work of a very low grade. In most cases he will forget all the theories he has learnt in college in a very short time, as he will have no chance to utilise them in his daily work.

The psychological effects have also to be mentioned:—

A young man studying the theories of economics, currency, banking, etc., will be very disappointed to find, that he has no use whatsoever for the subjects he has studied, a feeling which will be very depressing.

There are only very few men required in a country who really have the chance to deal with higher problems of economics, banking and currency. A few higher officials of the Finance Department only, Managing Governors and Secretaries of the Reserve Bank, leading politicians, who have to discuss questions of economic legislation and a few business men, who take part in the public life have such chances.

It is entirely wrong—as has been shown above—to believe that banking will improve by giving thousands of young men such an education which they can never utilise in their life.

The future banking clerk should start practical work at the age of 17 or 18 and practically all the knowledge which he really needs for his career as a future manager can be acquired by him only by working in the various departments of the bank.

In Europe some of the apprentices in the banks have passed only their matriculation and have entered the service of the bank at the age of 17 or 18 as stated above. Others again at the age of 15 or 16 go to a commercial school and pass out approximately at the age of 17 or 18 to start practical work. The subjects taught in these commercial schools are of a far lower standard than those which have been quoted from the question papers of the "Associate Examinations, 1929" in India. I have written to some such commercial schools in Central Europe and have requested them to supply me with their syllabus.

The present educational system in India has been described as "top-heavy". There is indeed no better word to characterise it. There are very few literate people in India amongst a population of 32 millions, but the proportion of students of higher subjects in relation to the number of people who can read and write is astonishingly high in comparison with the proportion in Europe and is of absolutely no practical value.

"Throughout the whole educational system there is waste and ineffectiveness." (See page 345 of Sir Philip Hartog's Committee's Report).

It is not at all exaggerated to surmise without the exact knowledge of statistical data, that for instance in Calcutta alone there are more students of philosophy in the various colleges than all over Europe.

And these very same students of philosophy later on are glad to get a job of a typist or of a clerk.

If the present "top-heavy" system is changed into a more extensive secondary education and not so many students go in for higher and let us say "useless" studies as to-day, only then can a better distribution of the middle class be expected.

A staff of banks recruited from young men of 17—18 years will show far better results than it does under the present system.

III.

Para. 2 of section 4 of part IV of the questionnaire invites replies to the following question:—

"Have you any suggestions to make in regard to the grant of facilities for higher training outside India to bank probationers and bank assistants in India?"

In connection with the above it has to be emphasised that the question regarding higher studies in foreign countries has also been dealt with in every other country. Summing up the experience in this respect, one may state that now-a-days educational authorities agree that higher studies in foreign countries are effective only when such men are sent out who know their subject and their profession very well, both theoretically and practically, and who know also the language of the respective foreign countries fairly well. It is agreed generally, that it is of very little use to send quite young men, who have not even passed their final examinations in their own country, to foreign countries.

Regarding higher studies of banking in foreign countries, only such men should go to study foreign banking systems, who have already a few years of successful practical work behind them, who have gathered experience in every line of banking, who know thoroughly every detail of the Indian

banking system, and who know, not only the langauge of the countries they are intending to visit but have also read something about the economic and banking system of these countries. Such studies undertaken during "study leave" will have most probably very good results and will help to train future managers and directors of banks to judge banking and financial question from broad views.

As the banking system of India is built upon the British system it would be of great advantage to the future of banking if some of the talented and ambitious members of the younger generation would visit Europe, America and Japan and study the banking organisations of these countries.

EXPLANATION OF THE REPORT OF THE BOARD OF DIRECTORS OF THE HUNGARIAN GENERAL CREDIT BANK FOR THE YEAR 1929.

In order to elucidate the theoretical description of the big Continental banks from the practical side a fairly good example may be found in the Hungarian General Credit Bank, Budapest, as this bank deals with all possible business lines as described in the memorandum.

I.—The Board of Directors.

First of all, the Board of Directors deserves notice. It consists of 18 Hungarian, one British, four French, one German, one Dutch and four Austrian members. It is interesting to state that amongst the Directors there are nine aristocrats (Counts and Barons), two former Cabinet Ministers, five members of the Upper House of Parliament, six landed proprietors, one Professor of the University, sixteen bankers and financiers, five representatives of various industrial undertakings and one merchant. This variety of nationalities, positions and professions has a value which gives a very strong foundation to the bank. The various Directors represent financial groups of great power and capacity. The shares of the bank are quoted on the London, Berlin, Frankfort, Hamburg, Vienna and Budapest Stock Exchanges.

II.—Business Lines.

The bank deals with the following business lines:—

Savings, current accounts, deposits, securities, foreign exchanges, credits, discounts, mortgages, goods, cereals, coal, sugar, wool, insurance,

loans for States, Provinces, municipalities and railways, etc.,

industrial undertakings.

Besides its branches and affiliations in Hungary, the bank controls various banks in Yugoslavia, Czechoslovakia, Bulgaria, Poland and even one in France.

It is interested financially to a considerable extent, in the following undertakings:—

8 mines and brick factories,

8 machines factories and metal industrial undertakings,

11 sugar refineries, flour mills and provision undertakings,

10 textile industrial undertakings, and

11 sundry undertakings.

As described in the memorandum the participation of the bank in the various industrial undertakings is changing yearly.

III.—Analysis of the Balance-Sheet.

(a) *Liabilities.*

The first item of the liabilities which has to be examined is the capital of the bank, which amounts to—

Pengoes 64,503,232.

One rupee being equal to 2 Pengoes, the capital amounts to—

3 crores and 22½ lakhs of rupees.

The above amount has been arrived at as being the sum of the share capital, capital reserve, ordinary reserve fund, and depreciation reserve fund.

The total capital will be examined later on in various connections, but it is advisable to describe first the various important items of the liabilities and assets.

The pension and relief funds can be neglected, as these two items are mentioned amongst the liabilities as well as under the assets and thus they are balanced.

The bank owes—

Pengoes 346,043,983—(17 crores, 30 lakhs of rupees)

to its creditors, and it is of utmost importance to mention that a considerable part of this amount consists of foreign credits.

The next two items, *i.e.*, "mortgage loans allotted" and "outstanding mortgage bonds" will be explained later on, in connection with "mortgage loans" under "assets".

"Unclaimed dividends" and "transitory accounts" are of no great importance. The item "guarantees and other obligations" is counterbalanced by the same amount on the other side of the balance sheet.

The net profits for the year 1929 have amounted to—

Pengoes 7,496,453—(approx. 37½ lakhs of rupees) out of which the bank paid 5½ Pengoes (Rs. 2-12-0) total dividend per share of 50 Pengoes (Rs. 25) for the year 1929, *i.e.*, 11 per cent. on the nominal value. The quotation of the share on the Budapest Stock Exchange is Pengoes 68 thus the dividend amounts to 8 per cent. on the actual value of the share at present.

(b) *Assets.*

Turning to the assets the question of liquidity arises in connection with cash reserves, etc. From this point of view the first four items, *i.e.*,—

(1) Cash,

(2) Balance on clearing accounts,

(3) Deposits with banks and bankers, and

(4) Bills discounted,

have to be added, as these items practically represent ready money: the bills can be rediscounted at any moment at the "Hungarian National Bank", which is the Hungarian Central Bank of Issue. The sum total of the above four items amounts to—

Pengoes 135,337,255—(6 crores and 76 lakhs of rupees).

This amount, compared with the item "creditors under liabilities", proves that the bank has a liquidity of nearly 40 per cent., *i.e.*, if the creditors withdrew 40 per cent. of their total deposits, the bank could meet this demand more or less in a day.

The various debtors owe the bank—

Pengoes 199,113,252—(nearly 10 crores of rupees).

The next items show the amount of invested capital ("locked-up") which cannot be easily changed into cash:—

(1) Government bonds, public loans and other securities.

(2) Investments in banking companies and other undertakings,

(3) Goods in stock,

(4) Real estate, and further

(5) a portion of the item "mortgage loans".

This last item needs a few words of explanation. Against all mortgage loans, as a rule mortgage bonds are issued. When the bank granted these loans its intention was to issue bonds and to place them on the Western money markets, but before it had closed this business with its Western business friends, the Hungarian Government decided that against all the mortgage loans issued by the various Hungarian banks, only one type of bonds should be issued. The above decision has been arrived at on the understanding that it is better to offer only a single type of bonds to the Western money markets, than to allow various banks to compete at the same time in offering their mortgage bonds in foreign countries. The balance sheet shows that out of mortgage loans amounting to—

Pengoes 43,447,999—(2 crores, 17 lakhs of rupees) mortgage bonds amounting only to—

Pengoes 18,190,923—(90 lakhs of rupees) have been issued and furthermore that mortgage loans amounting to—

Pengoes 12,367,495—(61½ lakhs of rupees) have been allotted to various foreign creditors. According to the above only—

Pengoes 30,558,418—(1 crore and 52½ lakhs of rupees) *i.e.*, the sum total of the items "outstanding mortgage bonds" and "mortgage loans allotted" has been granted to the clients taking mortgage loans out of such funds which can be called "long term deposits" and the balance, *i.e.*,

Pengoes 12,889,581—(64 lakhs of rupees) have been granted from short loans and will, therefore, have to be added to the "locked-up capital".

The sum total of the capital which is actually locked-up is:

Pengoes 84,815,846—(4 crores and 24 lakhs of rupees).

The above sum compared with the capital of the bank seems to be very high, but as it will be explained below, a bank enjoying the international connections of the standing of the Hungarian General Credit Bank can conduct its business safely even in this way without fearing the consequences of such a policy, which would have disastrous results in the case of a smaller and isolated bank.

The item "guarantee funds", "equipment" can be neglected.

Conclusions.

To arrive at a final judgment regarding the business policy of the bank, the following five figures deserve notice:—

1. Capital	Pengoes	64,503,232
2. Creditors	"	346,043,983
3. Debtors	"	199,113,252
4. Cash and bills discounted	"	135,337,255
5. Invested (locked up)	"	84,815,846

In comparison with the big English banks, it is interesting to state that the bank has a paid-up capital which is relatively high in comparison with the amount which it owes to its creditors, *i.e.*, 18 per cent. This proportion in the case of the Midland Bank Limited, London, is only approximately 7 per cent.

To characterise the work of the bank, the following calculations give a good explanation:—

The total deposits of the bank—the item "creditors" may be described as deposits—are:—

Pengoes 346,043,983.

The question is, how has the bank utilised this amount?

To answer the above question the following items have to be added:—

Cash and bills discounted	Pengoes	135,337,255
Debtors	"	199,113,252
TOTAL	"	334,450,507

The deduction of this sum total from the deposits shows a discrepancy of:—

Pengoes 11,593,476.

It is evident that this amount has been invested under the items which have been summed up as "locked-up capital".

The addition of this amount and of the capital of the bank gives the total of:—

Pengoes 76,096,708.

whereas the amount "locked-up" is:—

Pengoes 84,815,846.

The difference:—

Pengoes 8,719,138

is a secret capital reserve, which in fact is far higher than indicated by the above figure, as all the investments have been valuated very carefully and have been estimated far under their market value. The chief point which can be raised when criticising the balance sheet is undoubtedly the fact that

Pengoes 11,593,496

out of the deposits have been locked up in investments. From the point of view of a British commercial banker, the above figure needs some explanation, as it may be found peculiar that a bank should lock-up short term loans in investments. It may be remembered that, when describing the mortgage business of the bank, it has been mentioned that the bank has not issued mortgage bonds to the full extent of the amount of mortgage loans issued to its clients, on account of an instruction received from the Hungarian Government. This accounts for the above fact, which can be safely regarded as a temporary event only. Furthermore, it has to be remembered that a portion of the "deposits" of the bank consists of foreign loans, received from foreign financial groups and that the representatives of these groups are directors of the bank.

Taking the above into consideration the "locking-up" of a part of the deposits in investments or long term loans does not seem to be incomprehensible any longer and it has been done, most probably with the consent of the foreign directors.

Before the War the Continental banks had not "locked-up" their entire capital; this has been described in my statement of evidence. Dr. Riesser—as quoted in the statement—has proved that on the average only one-third of the capital of the German banks had been invested in syndicate operations in 1908.

The situation in Europe after the War being somewhat changed, the banks were often compelled to take over shares of undertakings which were unable to repay loans. Furthermore, the slump on the stock exchange has forced them to take up more shares than was usually done before the War. The Continental big banks—as described in my statement of evidence—are the leaders of the industrial undertakings, the masters of the stock exchange and also the supplies of agricultural credit and they are, therefore, to a certain amount responsible for the quotations on the stock exchange. The big Continental banks, through their activities, have fostered industry, trade and agriculture, to an extent unknown to British banks, and the Hungarian General Credit Bank may be called without exaggeration the patron of Hungarian production industry and agriculture. The fact that it has invested its entire capital for the sake of developing industry and agriculture cannot be called a sign of weakness or described as an incorrect business policy, as it has been done with the consent of the Board of Directors on which are represented leading financiers of every important part of Europe.

APPENDIX.

HUNGARIAN GENERAL CREDIT BANK.

REPORT OF THE BOARD OF DIRECTORS FOR THE SIXTY-SECOND BUSINESS YEAR.

(January 1—December 31, 1929.)

BOARD OF DIRECTORS:

Chairman:

BARON JOHN HARKANYI, P.C., (Hungarian), former Minister of Commerce, Member of the Upper House of Parliament, Landed Proprietor.

Vice-Chairmen:

COUNT JOSEPH MAILATH, P.C., (Hungarian), Landed Proprietor.

LOUIS DE NEURATH, (Austrian), Chief Managing Director of the Austrian Society of Credit for Commerce and Industry, Vienna.

Members:

COUNT ALEXANDER ANDRASSY, P.C., (Hungarian), Landed Proprietor.

DR. FERDINAND BAUMGARTEN, (Hungarian), University Professor, Chairman of the Union des Fabriques de Ciment de Beocsin S.A.

PIERRE CHEYSSON, (French), Administrateur Delegue of the Union Europeenne Industrielle et Financiere, Paris.

LORD CHURSTON, M.V.O., O.B.E., (British).

COUNT ANTHONY CZIRAKY, P.C., (Hungarian), Knight of the Golden Fleece, Landed Proprietor.

DR. MAURICE DE DOMONY, (Hungarian), Ministerial Councillor, General Manager of the Royal Hungarian River and Sea Navigation Co., Limited.

DR. AURELIUS DE EGRY, (Hungarian), Member of the Upper House of Parliament, Aulic Councillor, Solicitor.

DR. PAUL HAMMERSCHLAG, (Austrian), Member of the Board of the Austrian Society of Credit for Commerce and Industry, Vienna.

ELEMER DE HORVATH, (Hungarian), Landed Proprietor, former Managing Director of the Hungarian General Creditbank.

JULIUS KLEIN, (Hungarian), former Managing Director of the Hungarian General Creditbank.

BARON PAUL KORNFELD, (Hungarian), Administrateur Delegue of the Hungarian General Creditbank.

GEZA KOVACS, (Hungarian), Managing Director of the Hungarian General Creditbank.

EMIL KUX, (Austrian), of Messrs. Kux Bloch & Co., Vienna.

ING. LOUIS LION, (French), Member of the Board of the Banque de l'Union Parisienne, Paris.

FRANCIS DE PALUGYAY, (Hungarian), Chairman of the Board of Palugyay & Sons, Ltd.

ALLARD PIERSON, (Dutch), of Messrs. Pierson & Co., Amsterdam.

BARON LOUIS ROTHSCHILD, (Austrian), of S. M. V. Rothschild, Vienna.

ELIJAH RUSSO, (Hungarian), Chairman of the First Hungarian Rice Mill and Rice-Starch Manufacturing Co., Ltd.

COUNT ARMAND DE SAINT-SAUVEUR, (French), General Manager of Messrs. Schneider & Cie., Paris.

JOSEPH THEODORE SALAMON, (Hungarian), Managing Director of the Hungarian General Creditbank.

DR. TIBOR DE SCITOVSZKY, (Hungarian), former Minister of Foreign Affairs, Member of the Upper House of Parliament, General Manager of the Hungarian General Creditbank.

ALEXANDER DE STRASSER, (Hungarian), Landed Proprietor.

BARON GEORGE ULLMANN, (Hungarian), Managing Director of the Hungarian General Creditbank.

EUGENE VIDA, (Hungarian), Member of the Upper House of Parliament, Vice-Chairman and General Manager of the Hungarian General Colliery Co., Ltd.

MAX M. WARBURG, (German), of Messrs. M. M. Warburg & Co., Hamburg.

COL. ERNEST WEYL, (French), Administrateur Delegue of the Societe Generale d'Entreprises, Paris.

Quotation of our Shares on the London Stock Exchange.

In our last year's Report we noted that certificates for 175,000 of our shares had been presented for quotation on the London Stock Exchange. Quite recently the quotations of these certificates were officially registered in the Stock Exchange Official List by order of the Committee, so that at present our shares are being quoted officially—apart from the Budapest Exchange—on the Vienna, Berlin, Frankfort, Hamburg and London Exchanges.

Business Results.

Proceeding to deal with the business results for the year under review, we beg to submit the accounts for the business year 1929, the same showing net profits amounting to 7,496,453 Pengo 12 f., as against 7,446,928 Pengo 64 f. for the year 1928. The profits shown do not include the earnings of our foreign branches.

Savings and Current Account Deposits.

As compared with the figures for December 31st, 1928, the amount of savings deposits entrusted to the custody of the Institute show an increase

of roughly 8 per cent., that of current and cheque account deposits an advance of 16 per cent., whereas the amount of the item sundry creditors shows a decline of 13 per cent. The total amount of capital entrusted to the keeping of the Institute at the end of the year under review aggregated altogether 346,043,983 Pengo 54 f.

Securities and Foreign Exchange Business.

As a consequence of the development of the economic situation in general and of the situation of the money market in particular, dealt with in detail in the introductory section of the present report, the turnover effected by our stock exchange department last year was very restricted, the result being that the yield of the business done by this department shows a decline as compared with that of previous years.

The syndicate established by the Budapest banking companies for the purpose of preventing excessive oscillations of quotations on the exchange—in which syndicate our Institute plays an active part—proved strong enough to fulfil this task. Apart from the loss involved by taking over a small lot cf shares held by a private banking house which had become insolvent (a banking house with which we were not connected), this temporary combine has so far not been compelled to make any noteworthy sacrifices.

Our foreign exchanges department last year too displayed a lively activity, both in transacting operations in connection with foreign trade and exploiting foreign exchange arbitrage business possibilities.

Credit Business, Discounts.

The Institute has at all times considered itself bound to assist to the best of its ability in the work of satisfying the legitimate demands for credit of the economic factors of the country. This consideration guided us during the year under review too, when our private enterprise had to contend with an exceptionally grave crisis. We endeavoured further to place our resources as far as possible at the disposal, not only of undertakings closely connected with our concern, but of industry in general, and to meet the requirements of agriculture and of commerce likewise, lest the crisis should be aggravated by the withdrawal of credits. This activity of ours, in the exercise of which we proceeded with the utmost caution, last year—in particular as a result of the difficulties with which commerce had to contend—was accompanied by greater risks than usual, for which reason we considered it advisable to write off the amount of 390·809 pengo 62 f. for eventual losses on our outstanding claims, which amount figures under this head in the accounts now submitted to you. This sum, fixed by us with due regard for all eventualities represents only quite an insignificant fraction of the turnover of our discount business within the last year.

Our discount business shows a further advance.

Mortgage Business.

During the year under review our mortgage business could be carried on only on a very restricted scale. Owing to the well-known unfavourable

conditions prevailing in the international capital markets, the difficulties attending the placing of mortgage bonds in foreign countries increased enormously, transactions of the kind becoming in the end practically impossible. The negotiations initiated by our Ministry of Finance with regard to the centralisation of the issue of mortgage bonds were continued during the first half of the year; and in view of these negotiations the institutes issuing mortgage bonds had naturally to refrain from attempting independent issues with the aid of their correspondents.

Although the institutes issuing mortgage bonds endeavoured to further the realisation of the centralisation scheme, even though this solution would have entailed, not only a considerable material sacrifice for them, but also the restriction of their business independence, the action initiated by the Ministry of Finance has unfortunately so far led to no results, since owing to the protraction of the negotiations, lasting nearly a whole year, the agreement on essential questions of principle fell already within the period in which the New York Exchange showed a reserve in respect of investment securities.

From the point of view of the mortgage business it would be highly advantageous if the Ministry of Finance could adopt a definitive attitude as soon as possible in favour either of centralisation or of a maintenance of the system of unrestricted competition; for otherwise it is to be feared that the failure to settle this question may once more frustrate the exploitation of any favourable change that may ensue in the situation of the foreign money markets.

During the business year under review we granted amortisement mortgage loans redeemable by means of an accumulative sinking fund of the nominal value of $427,642,—$415,442 being secured by mortgages on agricultural property and $12,200 by mortgages on town property.

The amount still outstanding on December 31st, 1929,—after taking into account all regular sinking fund and extraordinary repayments—aggregated $7,623,793·53, the proportion of this amount secured by mortgages on agricultural property being $6,782,721·06, and that secured by mortgages on town property $841,072·47.

Out of these loans the sum of $2,170,116·79 was allotted to the banks co-operative society for the issuing of mortgage bonds. Despite the slowness of the process of accumulation of capital and the great shortage of capital, we succeeded in placing with our customers several further important lots of mortgage bonds, these deals increasing the value of our mortgage bonds in circulation from $1,395,000 to $3,191,950.

During the year we had our seven-and-a-half per cent. gold dollar bonds too registered on the Budapest Stock Exchange.

Goods Department.

During the second half of the year under review there was a recovery in the corn export trade, the result being that our corn department too displayed a brisker export activity than in the previous year, the bulk of the exports being despatched to the more distant countries of Western and Eastern Europe. There were still obstacles hindering the development of our export trade to the neighbouring States. The turnover having been

on a large scale, the results obtained by our corn department were better than those recorded for the year 1928.

The consumption of sugar was of the same volume as in the previous year, the yield of the inland business being, therefore, also on the level of 1928. Our export business was lively and on a very large scale; however, the yield of this branch was unfavourably influenced by the declining tendency of the world market prices.

The turnover of our coal department was in excess of that of the previous year, and the results obtained were satisfactory.

Though the yield of its operations during 1929 shows a slight advance on the results of the previous year, the business activity of our wool department still continues to be unsatisfactory.

Insurance Department.

In order to provide the undertakings belonging to our concern as well as our customers with an organisation for advice, control and records, early this year we established a special insurance department.

Budapest Branches.

The sphere of activities of our Budapest branches was further expanded during the year under review; and there was an advance of turnover in every branch of their business. The results obtained were very satisfactory.

Last year, after a long interval, we once more extended our network of local branches, opening a new branch in Jozsef-korut in October. Our city branch has been transferred from its premises in Egyetem-ter to a busier site in Calvin-ter.

Provincial and other branches.

Our 12 provincial branches had a very considerable turnover in 1929 too, the results obtained being very satisfactory.

We co-operated, either direct through our branches or indirect by means of credit placed at the disposal of the provincial banks belonging to our concern, in the work of supplying the demands of the provinces for credit on as reasonable terms as possible, and in remedying the by no means always unjustfiable complaints made by debtors respecting the exaction of exorbitant rates of interest.

At the end of the year under review the National Bank of Rumania restored to our Rumanian branches the authorisation to deal in foreign exchanges which had been previously withdrawn, thus enabling them to do business also in this branch of banking. In other respects the operations of these branches were on the scale of the previous year. The results obtained were very satisfactory.

There has not been any relief of the economic standstill prevailing in Fiume; and as a consequence of the great stagnation the results obtained by our Fiume branch last year too failed to reach the desired level.

During the year under review not much progress was made with the liquidation of our Kassa (Kosice) and Pozsony (Bratislava) branches—that liquidation being confined to the settlement of a few items still under

litigation and to other items subject to the provisions of inter-State conventions, which are to be eventually settled by the respective competent authorities; the main obstacle of the definite liquidation being that the Hungarian-Czech Convention has not yet come into force.

Real Estate.

The advance in the amount of real estate—an advance of some 37,000 pengoes on that recorded under the same head last year—is due to our having purchased a few small items of real estate.

Personal Expenditure.

The number of the staff recorded at the end of the year shows no change as compared with the previous year; for in engaging new employees, partly to replace others and partly to supplement the youngest category of our staff, we have not exceeded the limits by the reduction due to natural causes.

The amount of personal expenditure is still materially in excess of the level recorded for the last year of the pre-War period; however, this is to be attributed, not so much to the increase of our staff resulting from the considerable development of business and the expansion of the network of our branches, as to the shifting within the various categories of the staff. For, whereas in the years immediately preceding the outbreak of the Great War the mighty advance in the volume of our current business was accompanied by a rapid increase in the number of our employees, so that in 1913 the majority of those employees were still members of the younger categories, to-day, as a result of the conditions brought into being by the War and the years immediately following the War and of the forced reduction of the staff—affecting for social reasons primarily the younger generations—, the elder generation is represented in so strikingly disproportionate a ratio that, whereas in 1913 61 per cent. of our officials were young men below 28 years of age, and 51 per cent. were receiving salaries of less than 2,500 gold crowns a year, to-day these categories represent only 16 per cent. and 13 per cent. respectively, while nearly one half (49 per cent.) of the officials are between 28 and 38 years of age. This anomalous situation cannot be radically remedied except by the natural process of time.

General Expenditure.

The increase in the amount of the general expenditure as compared with the figures for 1928 is to be attributed mainly to the fact that the inland revenue authorities assessed the rent of the premises of our head office—which rent serves as a basis for the computation of our house taxes—at a figure in excess of that previously established, though partly also to the extraordinary expenditure involved by the establishment of our new Budapest branch and by the removal of our city branch.

The installation of the automatic telephone equipment in our head office premises was completed during the year under review by the firm "Ericsson" Hungarian Electricity Co., Ltd., (formerly Deckert and Homolka) belonging to our concern. The advantages of the new system

have even in the short time of its being in use already manifested themselves fully, alike in the acceleration of the connections and in the saving of working expenses.

Taxes and Dues.

As compared with the previous year, the amount of taxes and dues shows an increase, from 1,999,309 Pengo of f. to 2,322,463 Pengo 42 f., the difference being due to the additional company and income-taxes payable on the increased profits for the business year 1928 and to the increase of the amount charged under the head of house rent tax.

Coupon Service of Budapest Municipal Bonds (1914 issue).

Our Institute has been charged with the management of the coupon service of the Budapest Municipal four-and-a-half per cent. Bonds (1914 issue), subject to the provisions of the so-called Ostende Convention, the payment of the coupons to commence on January 1st, 1930.

Credit Transactions.

In another section of the present report we referred to the fact that owing to the situation prevailing in the foreign capital markets only a very small amount of long term loans could be placed abroad last year. With a view to alleviate the shortage of capital of our agriculture particular importance attaches to the discounting (6 months and 1 year respectively before maturity) of the second instalment due on January 15th, 1930 and of the third instalment due on January 15th, 1931 of the loan granted by the Swedish Match Trust for the purpose of financing the land reform scheme. This credit transaction including an advance made on the third instalment—prior to its discounting—has resulted in foreign capital of the value of some 143 million Pengo being placed at the disposal of the inland market; it was effected with the co-operation of our Institute by the banking house Messrs. N. M. Rothschild & Sons, of London.

As is well known, the Royal Hungarian State Railways propose to take up a large investments loan for the purpose of renewing and modernising the equipment of the railways. In order to start without delay the investments so important inasmuch as affording our industry employment, and to avoid the necessity of postponing the placing of the orders involved until the situation prevailing in the international capital market renders it possible to take up the loan in question abroad, at the beginning of the current year, jointly with the Hungarian Commercial Bank of Pest, our Institute placed an advance of $5,250,000 at the disposal of the Royal Hungarian State Railways, the same to be repaid out of the long term loan to be negotiated later.

We also co-operated in meeting the requirements of certain provincial towns for short term credit.

Through the agency of our foreign correspondents we participated in a few foreign issues too.

The negotiations carried on by the Direction der Disconto-Gesellschaft, of Berlin, with regard to the claims, dating from the year 1915, of our syndicate against the Bulgarian Treasury, were successfully concluded. The sum

thus allotted to the syndicate has been received partly in cash and partly in Treasury bills.

The development of the course of business of the "Hermes" Hungarian General Exchange Office Co., Ltd., was furthered by the continued increase in the amount of savings and current account deposits; and the Institute's operations during the business year 1928-29 yielded gratifying results, an issue to which the satisfactory activity of the undertakings in which this institute is financially interested also contributed.

During the year under review the network of provincial banking institutes belonging to our concern was further extended by the absorption of the Economic Bank Ltd., of Hodmezovasarhely.

The above bank, as also the other provincial banking institutes belonging to our sphere of interests, operated last year too in general with very favourable results; some of these institutes with our co-operation effected an increase of their share capital.

These provincial banking institutes are the following:—

Agricultural Savings & Creditbank Ltd., Szombathely,
Abauj-Szanto Savings Bank Ltd.,
Balassagyarmat Savings Bank,
Bekescsaba Savings Bank Association,
Commercial Bank Ltd., Sarospatak,
County of Komarom Credit Bank Ltd., Komarom,
County of Veszprem Savings Bank Ltd., Veszprem,
County of Zala Agricultural Savings Bank Ltd., Nagykanizsa,
Credit Institute for Agriculture & Commerce Ltd., Kisvarda,
Czegled Joint Industrial, Commercial & National Bank Ltd.,
General Commercial Bank Ltd., Debrecen,
Gyongyos Savings Bank Association,
Papa Credit Bank Ltd.,
Szeged Commercial & Industrial Bank,
Tisza-District Credit Institute & Savings Bank Ltd., Szolnok,
Transdanubian Bank & Savings Bank Ltd., Kaposvar.

The reorganisation of the Croation General Creditbank carried out at the end of 1928 made its beneficial effect felt the very first year; and the results obtained in every respect fulfilled expectations,—so much so, indeed, that the Institute will be able to resume the payment of dividends for the year under review.

The 1929 operations of the General Creditbank Co., Ltd., of Subotica (Szabadka), developing constantly, produced favourable results.

The Slovak General Creditbank Ltd., Bratislava (Pozsony) will not pay any dividend for the past year either.

The sphere of business of the Country Bank of Bosnia and Hercegovina, of Serajevo, was further extended during the year under review; however, the constant declining tendency of rates of interest prevailing in Yugoslavia once more exercised a considerable effect upon the business results obtained. The dividend to be allotted will probably be the same as in the previous year, *viz.*, 14 per cent.

During the year under review the Balkan Bank of Sofia, amalgamated with the Banque Franco-Belge de Bulgarie, the two institutes carrying on joint operations under the style of Banque Franco-Belge et Balkanique. The expansion by amalgamation has put this undertaking at the head of the banking concerns of Bulgaria. The new bank shows a satisfactory development and has had a favourable course of business.

The course of business of the Societe de Banque pur le Commerce et Industrie of Paris, up to now realised expectations.

Both the Warsaw Discountbank of Warsaw and the Silesian Credit Institute of Bielitz have a prosperous business year to record.

The Ganz & Co.—Danubius Machine, Railway-Carriage and Shipbuilding Co. Ltd., which during previous years too had materialised an extensive scheme of concentration, during the month of December, 1929, absorbed the Ganz Electricity Co. Ltd., an undertaking co-operating very closely with the parent concern, which previously too had held the majority of its shares. In effecting this fusion the parent concern was guided not only by the prospect of economising by means of rationalisation, but also by the desire to avoid the double taxation arising from the fact that on the profits shown by the Ganz Electricity Co., taxes had to be paid, not only by the said company but by the parent concern too, on the dividends received for the shares of the Ganz Electricity Co., held by it. In connection with the fusion, the parent concern, which has changed its firm to "Ganz & Co., Ltd., Electrical and Mechanical Engineers, Railway-Carriage Manufacturers & Shipbuilders", increased its share capital to the amount of 12,250,000 Pengo, at the same time absorbing the first Hungarian Sewing-Machine and Bicycle Manufacturing Co. Ltd., an undertaking which for more than ten years had not been operating at all and which possesses a site forming a natural complement to the Kobanyai-ut establishment of the Ganz concern. In carrying out the above transaction our Institute co-operated with the Hungarian Discount and Exchange Bank and the Hungarian-Italian Bank Ltd.

Jointly with the leading Budapest banking companies and in co-operation with certain economic associations we established the Hungarian Foreign Trading Corporation Ltd., an undertaking founded with the assistance of the Hungarian Ministry of Commerce for the purpose of developing the export trade of Hungarian industry. The company started with a share capital of 1,000,000 Pengo; it began its operations during the first half of the year under review.

In conjunction with the Brasso Sulphite-Pulp Co. Ltd., and the First Hungarian Paper Industry Co. Ltd., we have established a company with a share capital of 150,000 Pengo—the Fibrina Co. Ltd., for inventions—for the purpose of investigations and experiments connected with the manufacture of cellulose to be obtained from the fibres of maize stems The experimental station constructed by the company recently began its operations.

The "Ericsson" Hungarian Electricity Co. Ltd. (formerly Deckert & Homolka),—a firm which has again a satisfactory course of business to record—has concluded an agreement with its present undertaking, the Telefon-aktiebolaget L. M. Ericsson, Stockholm (a firm of world-wide repute), in terms of which agreement the parent firm will for several years to come procure for the Hungarian undertaking a considerable amount of orders for the construction of automatic telephone installations. In order

to be able to carry out these orders, the company will very shortly materially increase the number of its employees. Besides the advantage which it ensures by improving the results of the company's business, this agreement is destined to favourably influence the development of the country's balance of trade.

Increase of Share Capital.

The Electric and Railway Co. Ltd. ("Trust") effected further investments for the purpose of extending or modernising the electric power stations and transport undertakings under its own management or belonging to the inland and foreign companies in which it is financially interested. In order to obtain the capital required for this purpose and for that of expanding its sphere of business, the company last spring increased its share capital from 21 to 35 million Pengo. The transaction was effected with complete success with the co-operation of the principal shareholders in the company,—viz., our Institute, the Gesellschaft fuer elektrische Unternehmungen-Ludw. Loewe & Co. A. G., of Berlin, and the Societe Financiere de Transports et d'Entreprises Industrielles, of Brussels ("Sofina"). On this occasion the last named company, by taking over a considerable lot of shares, became one of the principal shareholders in the concern.

In addition, we co-operated in the increase of share capital of the following undertakings:

Magyarovar Artificial Silk Factory Co. Ltd., from 600.000 to 2,600,000 Pengo;

Providentia Insurance Co. Ltd., from 200,000 to 500,000 Pengo;

Centrale Bank voor Spoorwegen, of Amsterdam, from 5,125.000 to 6,125,000 Dutch florins.

We co-operated to a slight extent also in guaranteeing the increase of share capital of the following undertakings:

Schweizerischer Bankverein, of Bale, from 140.000.000 to 160,000.000 Swiss francs;

Banque de I'Union Parisienne, of Paris, from 150,000.000 to 200,000.000 French francs;

Zivnostenska Bank v Praze, of Prague, from 200,000.000 to 300,000.000 Czech crowns;

Boehmische Escompte-Bank and Credit-Anstalt, of Prague, from 200,000.000 to 250,000.000 Czech crowns;

Societa Finanziaria Assicurativa, of Milan, from 1,000.000 to 30,000.000 lire.

Undertakings belonging to our sphere of interests and their situation.

The vast majority of the numerous industrial undertaking belonging to our sphere of interests last year had a turnover equal, and indeed in many cases superior, to that of the previous year; and their business results may be described in general as satisfactory and in some cases as decidedly most favourable. In view of the well-known economic difficulties prevailing during the year under review, of which we would mention only the advance

of the rates of interest and the decline of the purchasing capacity of the population, the results obtained by these undertakings should reassure us in respect of the present and fill us with confidence as regards the future; for with the improvement in the general economic situation that may be expected we can reckon upon a more vigorous industrial development.

In this connection we would note that last autumn, on our initiative, the more important industrial undertakings belonging to our concern published in the daily press reports on their situation. Herewith our undertakings desired to introduce in Hungary the custom practised in the countries in the West of issuing periodical records for the information of the general public.

Proceeding to deal with the individual branches of industry, we may establish the fact that the turnover and business results of the colliery industry, and of certain machine, transport and electricity undertakings belonging to our concern, are in excess of those recorded for the previous year. There has been a slight decline in the turnover of the cement factories and other undertakings of the building trade,—a decline due to the suspension of the building activity. The decrease in consumption affected more particularly the textile industry undertakings: the unfavourable situation of these undertakings—in evidence all the world over—was aggravated by the low prices resulting from the keen competition and by the number of textile firms becoming insolvent. The situation of the sugar and milling industry was rendered difficult by the unfavourable development of prices in the international markets; nevertheless, the undertakings of these industries belonging to our concern operated with very satisfactory results.

In accordance with the results obtained, the dividend allotted by most of the undertakings will probably be on a level with the previous year; indeed, in some cases we may even expect the allotment of a higher dividend.

In addition to our participation on a small scale in certain other undertakings, we are financially interested to a considerable extent in the more important companies enumerated below:

Mines and Brick Factories.

Hungarian General Colliery Co. Ltd.,

Urikany-Zsil Valley Hungarian Colliery Co. Ltd.,

Borsod Colliery Co. Ltd.,

Joint Cement Factories of Beocsin Ltd.,

Magnesite Co. Ltd., of Zurich,

Budapest-Szentlorinc and Tata Tile and Brick Factory Co. Ltd.,

Porcelain, Earthenware and Stove Factory Co. Ltd.

Metal Industry and Machine Factories.

Ganz & Co. Ltd., Electrical & Mechanical Engineers,

Railway-Carriage Manufacturers and Shipbuilders.

Small Arms and Machine Factory Co. Ltd.,
Hofherr-Schrantz & Clayton-Shuttleworth Ltd.

Hungarian Works for Machinery.

L. Lang Machine Factory Co. Ltd.,
Hungarian Lamp and Metal-Goods Manufacturing Co. Ltd.,
Hungarian Steel Works Co. Ltd.,
Hungarian General Engine Works Ltd.,
"Vulkan" Machine Factory Co. Ltd.

Transport Undertakings.

Centrale Bank voor Spoorwegen (Central Railroad Bank) of Amsterdam,
Royal Hungarian River and Sea Navigation Co. Ltd.,
Hungarian Levant Steamship Co. Ltd.,
Levante Societa di Navigazione Fiumana, of Rome,
Danube Navigation Company Limited, of London,
Electric and Railway Co. Ltd., ("Trust").

Sugar Refineries, Milling and Provision Undertakings.

Hungarian Sugar Industry Co. Ltd.,
Agricultural Industry Co. Ltd.,
Charles Stummer Sugar Factories Ltd., Trnava (Nagyszombat),
Sugar Factories of County Bacs Ltd.,
Selyp Sugar Factory Co. Ltd.,
"Alfold" Sugar Factory Co. Ltd.,
United Sugar Co. Ltd., of London,
"Hungaria" United Steam-Mills Ltd.,
Rabbethge & Giesecke Hungarian Seed-Growing Co. Ltd.,
First Hungarian Rice Mill and Rice-Starch Manufacturing Co. Ltd.,
Hungarian Fisheries Co. Ltd.

Petroleum Undertakings.

V. Nederlandsche Petroleum maatschappij "Photogen" of Amsterdam,—as also the petroleum undertakings belonging to the sphere of interests of that company.

Textile Industry Undertakings.

Hungarian Cotton Manufacturing Co. Ltd.,
Calico Printing Co. Ltd.,
"Pannonia" Hemp and Flax Industry Co., Ltd.,
Linum-Samuel Taussig & Sons, Elax-Spinning & Weaving Co., Ltd.,
National Worsted-Spinning and Weaving Co. Ltd.,
First Knitting and Weaving Factory of Gyula Ltd.,
Cloth and Blanket Factory of Baja Ltd.,
First Hungarian Felt, Cloth and Fez Factory Co. Ltd., Koszeg.,
Magyarovar Artificial Silk Factory Ltd.,
Dyeing and Printing Trust Ltd., Coire.

Sundry Undertakings.

Kobanya Civic Brewery and St. Stephen Patent Floods Co. Ltd.,
Brasso Sulphite-Pulp Co. Ltd.,
First Hungarian Paper Industry Co. Ltd.,
Providentia Insurance Co. Ltd.,
Revai Bros. Ltd., Printers and Publishers,
"Ericsson" Hungarian Electricity Co. Ltd. (formerly Deckert and Homolka),
Nitrogen Artificial Manure and Chemical Industry Co. Ltd.,
"Phylaxia" Serum Producing Co. Ltd.,
Hungarian General Road-Building Co. Ltd.,
"Confidentia" Trust Co. Ltd.,
National Warehousing Co. Ltd.

Since the issue of our last year's report we have realised our stock of Hungarian Pig-Fattening and Meat Trading Co. Ltd., of Beremend Portland Cement and Lime Works Ltd., and of Societe Financiere de Transports et d'Entreprises Industrielles ("Sofina"), of Brussels, shares, as also our interests in several minor undertakings, at prices showing a profit on the valuation entered in our books.

The value of our various investments as shown in our books is 36,844.948 Pengo 37 f.; the proportion of this amount invested in Government securities, public loans, mortgage debentures and shares of transport undertakings is 5,014,963 Pengo 19 f., the remainder—*viz.*, 31,829,980 Pengo 18 f.—being invested in industrial, banking, insurance and other undertakings.

Stock of Securities.

The value of our stock of securities figures in the balance sheet at the amount of 17,585,737 Pengo 07 f.; the distribution of this amount among the various categories of securities is shown in the statement annexed to the present report.

Distribution of Profits.

With respect to the appropriation of the profits obtained during the business year under review, we beg to submit to the approval of the General Meeting the following proposal:

According to the Profit and Loss Account herewith presented, the net profits for the year 1929 amount to . . .	7,496.453 pengo 12 f.	
After deducting herefrom the surplus profits brought forward from the previous year, *viz.*	41.222 „ 52 „	
The amount remaining is		7,455.230 pengo 60 f.
After deducting herefrom—as provided in our Articles of Association—interest at the rate of 5 per cent. per annum—*i.e.*, 2 pengo 50 f. per share—on the paid-up share capital of 41,400.000 pengo—*viz.* .	2,070.000 pengo .. f.	
We propose the payment of a further amount of 3 pengo per share . .	2,484.000 „ -- „	
The sum to be deducted under this head being therefore altogether		4,554.000 pengo .. f.
That being—together with the 5 per cent. interest referred to above—a total dividend of 5 pengo 50 f. per share for the year 1929		..
We then propose that out of the amount remaining, *viz.*		2,901.230 pengo 60 f.
To which amount must be added the surplus profits deducted above, *viz* . .		41.222 „ 52 „
That making the amount available altogether		2,942.453 pengo 12 f.
The following appropriations be made—		
for the endowment of the Ordinary Reserve Fund the sum of	800.000 pengo .. f.	
for the endowment of the Depreciation Reserve Fund the sum of . . .	—200.000 „ .. „	
for the endowment of the Employees' Relief Funds the sum of	50.000 „ .. „	
for the endowment of the Employees' Pension Institute established in terms of Act XL of 1928 for the benefit of employees in the active service the sum of	300.000 „ .. „	
for the endowment of the Pension Fund of retired employees the sum of . .	350.000 „ .. „	
for the payment of remunerations to employees the sum of	850.000 „ .. „	
and finally, for the payment of bonuses (5 per cent.) due to the members of the Board of Directors under 40 of the Articles of Association, the sum of .	—297.761 „ 53 „	
the aggregate amount thus appropriated being		2,847.761 pengo 53 f.
the sum then remaining, *viz.*		94.691 pengo 59 f.

to be carried forward to the accounts for the business year 1930.

We beg to move that, in the event of the General Meeting approving our proposal relating to the distribution of profits, coupon No. 4 of our shares due for payment on May 1st, 1930, be redeemed as from March 20th of the current year for the sum of 5 Pengo 50 f.

Vote of Confidence.

We beg the General Meeting kindly to approve the balance sheet herewith submitted as examined and found correct by the Committee of Supervision, as also our proposals relating to the appropriation of the net profits, which proposals have been passed by the Committee of Supervision too, and to pass a vote of confidence in the Board of Directors and the Committee of Supervision in respect of the business year 1929.

BALANCE-SHEET FOR THE YEAR 1929.

LIABILITIES.

—		Pengo.	Fill.
Share Capital (828·000 shares of nom. val. of 50 pengo each)		41,400.000	..
Capital Reserve		20,403.232	..
Ordinary Reserve Fund		2,000.000	..
Depreciation Reserve Fund		700.000	..
Pension Funds—			
(a) Pension Institute of the Employees in active service	P. 5,300.735·35		
(b) Pension Fund of retired Employees	,, 1,176.043·51		
		6,476.978	86
Employees Relief Funds		508.617	28
Creditors—			
(a) Savings Deposits	P. 55,250.729·46		
(b) Deposits on Current Accounts and Cheque Accounts	,, 145,817.068·89		
(c) Sundry Creditors	,, 144,976.185·19		
		346,043.983	54
Mortgage Loans allotted		12,367.495	59
Outstanding Mortgage Bonds (Drawn Bonds P. 29,064·90)		18,190.923	05
Unclaimed Dividends		36.155	81
Transitory Accounts		2,248.344	40
Guarantees and other Obligations	P. 49,103.075·88		
Balance: Profits		7,496.453	12
		457,872.183	65

BALANCE-SHEET FOR THE YEAR 1929.

ASSETS.

—		Pengo.	Fill.
Cash		7,695.163	62
Balances on Clearing Accounts		3,714.616	86
Deposits with Banks and Bankers		17,453.246	73
Bills discounted		106,474.230	15
Debtors—			
(a) Loans on Stocks and Shares . .	P. 16,096·880·56		
(b) Loans on Merchandise	„ 2,570·139·05		
(c) Loans on other Securities	„ 63,996·014·00		
(d) Open Credits and sundry Debtors .	„ 116,450·219·20		
		199,113.252	81
Government Bonds, Public Loans and other Securities . .		17,586.737	07
Investments in Banking Companies and other Undertakings .		36,844.943	37
Mortgage loans serving as Security for Mortgage Bonds . .		43,447.999	33
Guarantee Funds		1,060.811	69
Goods in Stock		6,802.560	52
Real Estate		10,693.025	36
Assets of Pension Funds—			
(a) Pension Institute of the Employees in active service	P. 5,300·735·35		
(b) Pension Fund of retired Employees .	„ 1,176·243·51		
		6,476.978	86
Assets of Employees' Relief Funds		508.617	28
Equipment		1.000	..
Liabilities of Customers for Guarantees and other Obligations	P. 49,103·075·88		
		457,872.183	65

Budapest, December 31, 1929.

The Board of Directors.

Explanation of the "Statement showing characteristic data relating to European Banking in 1928".

My memorandum on the Principles of European banking and the Indian banking problem—has described the organisation and the working of the big European Banks in general and has stated that in every Continental country there is a more or less similar type of big banks in existence. The characteristic feature of these big banks is that their transactions cover all the possible lines of finance: industrial and agricultural finance, loans for States, municipalities, transactions on the stock exchanges, in foreign exchanges and participation in syndicates, etc.

In order to give a clear and detailed idea about the working of such a big Continental bank I have submitted the Report of the Hungarian General Creditbank 1929 and I have tried to explain it from various points of view. This bank has been selected as an example, as it deals with every possible business line which can be undertaken by a Continental bank and furthermore because its connection and its Board of Directors are of an international composition, comprising members from various countries and thus giving an example of international co-operation.

In every European country there are banks similar to the Hungarian General Creditbank, and in order to give a general idea about these banks I herewith submit a statistical statement showing the characteristic data of the largest joint stock banks of 19 European countries.

The balance sheets of the various banks show the assets and liabilities in various groups and the various items are described in several ways. In order to compare the balance sheets of all the banks the various items of assets and liabilities have been condensed under a few and important heads which are explained in the following:—

Capital and Reserves.

This column shows the "own capital" of the bank. On the Continent under capital "paid-up capital" is understood without exception.

The total of the capital and reserves is shown in one column, as this amount represents the "own capital" of the bank, which will be compared later on with the deposits (creditors), *i.e.*, the "foreign money".

The statistical data have been shown in the currency of each country and also in lakhs of rupees for the sake of comparison. The largest capital is 45½ crores of rupees; that of the "Societe General de Belgique and the smallest capital (16 lakhs) is owned by the "Banque Bulgare de Commerce".

Long term investments.

("locked-up").

The various business lines transacted by the Continental banks has the inevitable consequence of locking-up certain amounts. The chief examples are: participation in syndicates, various holdings in stocks and shares, shares of affiliated banks, and real estate. The third column shows the proportion of the amounts "locked-up" to the capital and reserves. It deserves notice

that only 13 per cent. of the capital and reserves of the Amsterdamsche Bank is locked up, whereas the "Erste Kroatische Sparkasse (Yugoslavia)" shows a sum of "locked-up" investments which is not less than 247 per cent. of its capital and reserves, that means, that foreign money, *i.e.*, money belonging to depositors (short term deposits) has been locked-up. As a rule, a bank should never follow such a policy and should not invest short term deposits. Before the War it never happened (or it was very seldom) that money belonging to creditors was invested in shares or syndicates, etc.

The situation after the war and the general depression in the economic situation has compelled banks to take up more shares than before the War. As on the Continent the banks act as company promoters, etc., they are in a way responsible for the quotations of the shares issued by their syndicates. Thus in order to prevent the sharp decline of prices the banks had to purchase various shares of industrial undertakings in larger quantities, than it was done before the War.

This activity has to be judged in connection with the standing of the bank in the international financial world. In case a bank belongs to a very strong international financial group, a certain "locking-up", even if it exceeds the capital and the reserves, will not do any harm. Later on, in case prices are rising, the bank can sell a part of these shares at a profit and besides making a profit it has certainly helped the economic situation of the country. If this is done with the consent of directors with influential international connections, it can be safely carried through. Banks, on the other hand, which are more isolated or smaller local banks can fail in a short time through such a business policy.

Creditors.

The column "creditors" shows the sum total of all foreign money which has been deposited with the bank, such as deposits on current account, on cheque account, fixed deposits, foreign credits, deposits received from other banks, etc. The Midland Bank, Limited, London, had the largest deposits in 1928, amounting to 624½ crores of rupees. The Banque Bulgare de Commerce had only 129 lakhs of deposits. The fifth column shows the relation of deposits to the capital and reserves. As a rule one can lay down that the higher the standing of a bank, the smaller can be the capital in relation to the deposits. That the standing of a bank is based on confidence and "spiritual capital" has been emphasised throughout my memorandum and is also the explanation of the above rule. The various percentages as shown in the fifth column prove the above rule. The biggest banks have a relatively small capital (and reserves) in comparison with the deposits:

Deutsche Bank, Berlin	9 per cent.
Midland Bank, Ltd., London	6 ,,
Societe Generale, Paris	4½ ,,

Cash, balances with banks and bills discounted.

The sixth column is a summary of the liquid assets which are necessary in order to satisfy sudden withdrawals. In countries with a proper Reserve Bank the bills discounted, which are held in the portfolio of the banks can be rediscounted with the Reserve Bank at any given moment.

In order to judge the liquidity of a bank the sum total of the liquid assets has to be compared with the total amount of deposits (creditors). A bank of a very high standing is not compelled to hold a relatively large amount in liquid assets, as it has not to fear the consequences of sudden runs. The balance sheet of the Societe Generale, Paris, shows a liquidity of 77 per cent. (seventh column), whereas the Oesterreichische Credit Anstalt in Vienna only 15 per cent.

Bills discounted.

A separate column (the eighth) has been inserted in order to show, what amount of the liquid assets consists of discounted bills. To keep a very high cash balance means a loss to the bank, whereas a high proportion of discounted bills will serve the same purpose and secure profit too.

Debtors.

The ninth column sums up the various debtors of the bank. Strictly speaking the previous column ("bills discounted") could also be dealt with under this item, as the clients who have accepted drafts are also debtors of the bank. But as the outstanding amounts against which the bank is in possession of a draft can be realised at any given moment through rediscounting the bills, these two columns have to be kept separately.

Profit.

The last column shows the profit obtained throughout the year 1928. The Banque Bulgare de Commerce shows the highest profit:—16 per cent. and the Kjobenhavns Handelsbank has had the worst business year between the 19 banks enumerated in the statement, as the profit was only 5 per cent. of its capital and reserves.

* * * * * *

Concluding, we may state that the best figures are those of the Amsterdamsche Bank: only 13 per cent. of the capital and reserves are "locked-up", the capital is 38 per cent. of the deposited amounts (creditors), and the percentage of liquidity is 47 per cent. On the other hand the Erste Kroatische Sparkasse, Agram (Yugoslavia) cannot be very proud of its balance: an amount equal to 247 per cent. of the capital and reserves is "locked-up", the capital and reserves are equal only to 7 per cent. of the deposited amounts (creditors), and the percentage of liquidity is not more than 21 per cent.

सत्यमेव जयते

No. 33.

Statement of evidence submitted by Mr. Chhotalal Ishwardas Parekh, Bombay.

INDIGENOUS BANKING IN INDIA.

It is a well-known fact that from times immemorial the institutions of indigenous banking in India were carried on by the shroffs through their pedhis and their methods of dealing in money were based on a very high standard of credit and trust. Monies were borrowed and lent among themselves by the shroffs on credit either on current or sight days bills account, and the sense of business morality with them was so keen and acute that they hardly suffered any such losses by way of bad debts, etc., as we experience at the present day. Being well acquainted with the local conditions of the districts with which they were dealing, they came into close touch with the farmers, small traders and merchants and the artisan class of the villages and cities and they encouraged and financed the working class to such an extent that the indigenous industry and trade were a pride for the country even though in certain cases the rate of interest that was charged by them was a bit higher. In times of draught and famine also they rendered valuable services to the agriculturists. There were no hard and fast rules and regulations laid down to carry on the banking business. Owing to the very high idea of self-respect and credit, litigations and insolvency were conspicuous by their absence. However, with the dawn of Western culture and civilisation in this country, banking institutions on Western lines came into being and as a result of it the Bank of Bombay saw the light of the day in the year 1840. The shroffs were very reluctant in the beginning to have any co-operation with the bank but later on, when they found that the bank's dealings were safe and satisfactory, they commenced their dealings with it and also the bank, thereby, made huge profits from the shroffs only on credit bills which is evident from the announcement made by Government in those days.

The functions of these shroffs were not limited. They often acted as the intermediaries between the foreigners and the producers in buying or selling the commodities and the business went on smoothly and profitably. But the foreigners in course of time began to deal directly with the producers with the facilities of large credit afforded to them by banks and this had a very detrimental effect on the business of the shroffs which was really handicapped.

The net result of all these was that there being no legitimate business for the shroffs to pursue, many of them were compelled to enter into speculative transactions. The remedy that I would suggest to avoid this is that the foreigners should not be allowed to deal directly with the producers without the intermediate shroffs.

Registration by the shroffs will be of very little or no benefit under the existing method of audit which is being conducted by the chartered accountants. The real test of dealings with the shroffs entirely depends upon the efficiency of the bank management and its staff. It is also necessary that the bank directors should get more useful and accurate information on the subject by their close association with the details and the technique of thebanking. The connections of the shroffs with the bank, so far as Ican see,

can only be resumed and strongly built up by allowing them facilities in overdrafts and in other accounts without securities as more generally such facilities are of a temporary nature to encourage the particular trade of the season.

As regards rival dealings carried on by the branches of the Imperial Bank of India with the indigenous banks in the villages and cities, I may be allowed to state that the deposits and the local exchange business that the shroffs were doing have been practically taken hold of by these branches with the result that the monopoly of getting money at cheap rates of interest is lost to the shroffs and thereby the finances of the districts are being drifted away to the head office of the said bank.

Naturally, these transactions have their effect on the money markets in these districts which are rendered more tighter than ever. My point, therefore, is that the opening of the branches of the Imperial Bank should be stopped entirely and each district should have its own local independent banking institution. By doing so, the institutions of shroffs can be revived and the circulation of money centralised.

I cannot close this subject without drawing the attention of the Committee to the fact that much harassment is caused to the shroffs by the income-tax authorities whose methods of inspection are nothing short of ruining these shroffs. Commercial litigation also has become so costly and its procedure is so lengthy that a businessman becomes sick of it before he gets judgment.

I would suggest a separate Commercial Court with a Judge and jury consisting of two commercial persons and solicitors or pleaders (advocates) may be allowed to appear in this Court. If the practice of briefing two counsels at a time in the commercial cause is discontinued, in my opinion the shroffs will save 50 per cent. of the expenses of the litigation.

BANKING IN INDIA.

Banking on western lines was first introduced in India in the year 1840 and a number of banks have been registered since then. To promote banking habits on Western lines in these days when illiteracy is so rampant in the country is not an easy task. Even in spite of that, banking would have well progressed if the management would have been carried on in an upright manner based on the fundamental principles of banking. The epidemic of speculation, however, seized many of the capitalists of the day and the banks were made to suffer by its contagion and ill-effects.

Most of them, including the Bank of Bombay, lost the confidence of the public on or before the year 1864 and a great financial crisis that followed was one of the inevitable results. It has been held that the careless management of the Secretary and the Board of Directors of the Bank of Bombay were mainly responsible for this sad result and even the Directors nominated on the Board by the Government of Bombay were blamed for negligence. Subsequently, the Bank of Bombay was reconstructed as a Presidency Bank under the Presidency Bank Act. Almost all Presidency Banks were working satisfactorily and the traders, the merchants and the shroffs used to get good facility in the shape of credit bills, etc., and the rate of interest fluctuated according to the trade requirements of each Presidency. The Bank of Bombay, as it was then constituted, had greatly helped the textile industry when it was in bad need of funds in the years 1897—1900. The credit for giving this timely

aid to this staple industry of India goes principally to the efforts of an intelligent and important Indian element that existed then in the management of the bank. Otherwise the bank's main business was that of discounting the local bills.

The amalgamation of the Presidency Banks into the Imperial Bank of India under the Imperial Bank of India Act took place in 1921. Owing to the patronage of Government of the Imperial Bank and the Government having a predominant voice in its constitution and its conduct of affairs, the Directors of the Imperial Bank lost the power of controlling the money market which was formerly exercised by the Board of Directors of the Presidency Banks very effectually. The Imperial Bank Act has been given wide powers to advance money to a single firm which was restricted in the case of the Presidency Banks.

The attitude of the Imperial Bank, in spite of some of the rich Indian magnates having their seats on the Directorate, is based on so narrow and conservative a standard towards Indians that the latter hardly get such accommodation, treatment and facilities at its hands in matters of finance as the foreigners get in comparison with them. The Imperial Bank could not see its way to advance money to one Punjab bank under Indian management, whereas the Alliance Bank of Simla under European management was financed by accepting securities which were not worth much.

The bank refused to advance at one per cent. below the Bank Rate on Government securities though it was agreed to by the bank in certain other cases. It has been alleged that the Imperial Bank practically tried to discourage and paralise the textile industry by demanding money when there was a crisis and strike in Bombay last year. If His Exalted Highness the Nizam of Hyderabad had not invested a crore of rupees in Bombay in textile trade, that industry would have been doomed.

Some of the evils of the administration of the Imperial Bank are :—

(1) The manipulation of the rates of interest as it suits the sweet will of the bank though the money at call is occasionally obtainable at a very low rate.

(2) Comparatively the bank does not sufficiently encourage the discounting of local bills freely and the result is that the purchasing power of the trade is greatly reduced. I may be permitted to submit that the Bombay office would not have lost in the business of discounting the local bills.

(3) The bank financed the English firms in up-country only on the lien statement of goods without any margin at a very cheap rate of interest.

(4) The bank advanced money to the English firms even on the railway receipts which are so far not considered to be negotiable instruments.

(5) The bank financed the English racers at Calcutta with a very large capital, while they could not accommodate the textile mill industry in Bombay and on the contrary they demanded money from the agents of the mills at a very inopportune and critical time.

It is a pity to learn that these demands were made even in spite of Sir Purshotamdas, "a wise distinguished man coupled with vast general commercial knowledge, specific banking attainments of a high order", gracing the Directorate of the bank. Moreover, when he is reported to have advanced an argument in the Imperial Legislative Assembly that the Bank of England, a most conservative institution, helped the Lancashire industry and that was what the national Government would have done in India to save the Indian textile industry, may I pertinently ask what Sir Purshotamdas as an Indian

and as the Chairman of the Imperial Bank of India in Bombay has done to help this industry.

The Imperial Bank can be said to be practically a Europeanised institution. The European officers draw high salaries. A man drawing Rs. 5,000 becomes fit to draw Rs. 10,000 immediately he becomes the Governor of the Imperial Bank. What are his extra qualifications? The bank pays high salaries to the English staff even if they are raw men and newly imported from England; whereas experienced Indians are not regarded as possessing sufficient qualifications to become even the accountants or the managers. The maintenance charges of the bank are so high that as soon as the Government support is withdrawn, it would be very hard to maintain the institution. I may be allowed to mention here that the management also is said to be defective, as I know of a case in which the bank allowed a substantial party standing as security for Rs. 10 lacs to substitute for him an ordinary man of modest means as security for that sum, and the bank, ultimately, lost the money over that transaction. Since its inception, the Imperial bank, according to my calculation, should have lost over Rs. 50 lacs only on this side of the Presidency but the Directors have never said a word about this at the annual general meetings of the bank. What they are doing at these meetings is to adopt the report formally and utter words of mutual trust, goodwill and eulogy. The Chairman praises the Governor and *vice versa*. The natural corollary that can be drawn out of this is that whether there may be Indian or European Directors on the bank's Board of Directors they may be either incompetent or careless to know what the Secretary has done or that they may be passing everything placed before them at the meeting with closed eyes.

The Imperial Bank has got three auditors for three places. I think this system is defective inasmuch as the auditor of one Presidency knows nothing of the audit of another Presidency even though the auditors sign and certify generally the total liability and assets of the Imperial Bank in the balance sheets.

Branches of the Imperial Bank in up-country are not found to be beneficial to the villagers and I think they are more or less pulling on for the convenience of Government.

Some English officers of the bank are paid pension on the plea of disability to work in the bank and it is necessary to institute inquiries into this practice. From the statement appended herewith it would be interesting to know as to how the bank has manipulated the business as suited to its sweet will. A reference to the figures will show that from the years 1924 to 1930 the bank's investments in Government securities have more than been doubled while the advances of loans and cash credits and discounting of bills have substantially been decreased and moreover, the charges on what may be classed as dead stock of bank's assets have been further piled up during these years to the extent of about Rs. 25 lakhs.

I think a careful reading of these figures should be sufficient to convince one who is interested in the bank's dealings that the Imperial Bank is to a great extent responsible for the present tightness and the sad plight of the money market and the consequent slump in the trade conditions.

Statement of Accounts of Imperial Bank of India.

Liabilities.	1924 June.	1925 June.	1926 June.	1927 June.	1928 June.	1929 June.
Capital paid	5,62,50,000	..	..	..	..	..
Reserve	4,57,50,000	4,77,50,000	4,92,50,000	5,07,50,000	5,17,50,000	5,27,50,000
Public Deposit	22,08,00,000	22,52,81,000	32,54,88,000	10,04,43,000	7,96,57,000	20,74,36,000
Other Deposit	76,62,44,000	75,88,93,000	75,30,56,000	73,17,24,000	73,31,10,000	72,33,05,000
Loans against Securities	..	..	..	..	..	..
Loans from Government	..	..	..	..	..	..
Contingent Liabilities	..	..	..	..	..	..
Sundries	60,83,000	67,29,000	73,34,000	38,05,000	44,23,000	61,21,000

Assets.

Assets.	1924 June.	1925 June.	1926 June.	1927 June.	1928 June.	1929 June.
Government Securities	10,53,60,000	12,91,00,000	20,69,88,000	18,77,00,000	22,94,69,000	21,21,55,000
Other Authorised Securities	1,22,04,000	1,22,04,000	1,19,90,000	1,73,69,000	2,40,79,000	2,88,03,000
Loans	21,88,72,000	17,33,75,000	14,91,96,000	13,07,00,000	11,93,72,000	11,49,29,000
Cash Credits	43,60,70,000	31,65,60,000	27,75,31,000	30,19,75,000	31,61,26,000	30,62,78,000
Inland Bills	5,60,00,000	5,75,21,000	5,04,67,000	4,33,05,000	6,42,16,000	4,59,19,000
Foreign Bills	1,03,000	1,26,79,000	1,26,24,000	53,000	3,62,295	2,01,000
Bullion	..	..	..	20,030	..	..
Dead Stock	2,56,58,000	2,74,00,000	2,76,32,000	2,78,05,000	2,80,64,000	2,81,24,000
Liabilities of Constituents	..	..	..	..	..	..
Sundries	53,63,000	47,61,000	41,91,000	50,48,000	50,24,000	49,30,000
Balance with other Banks	1,59,76,000	29,92,000	4,43,000	6,13,000	7,08,000	3,73,000
Cash	21,95,37,000	35,82,92,000	45,03,12,000	22,83,65,000	13,77,67,000	30,41,45,000
Charges	79,47,000	84,88,000	87,00,000	85,67,000	84,35,000	86,63,000
Profit	89,02,000	81,97,000	84,50,000	85,64,000	82,95,000	81,31,000

INDIAN JOINT STOCK BANKS.

The aims of the bank are to create the required faith in a banking system and to attract the Indian deposits to finance the internal trade of India and to meet the banking requirements of all types of economic enterprise and of all sections of the population just as the exchange banks finance the export and import trade. Our banks are financing the local trade and industry but such finance entirely depends upon the connections with the founders and managers of the banks. It is proved that the banks have financed out of proportions to speculators in stock and shares, cotton, seed, wheat, bullion, and property, instead of financing the legitimate traders and shroffs. The result is that the traders with small means suffer to a great extent at the hands of the speculators and the banks also eventually have suffered in many cases.

Directors of the bank who have no large commitments in commerce and industry and who can make investments on a sound basis of commercial banking should be selected, so that there may be few chances of speculative activities risking the bank's capital.

More banks are necessary with a small or big capital to finance the small traders, wholesale or retail, as the case may be, to enable them to sell their goods on two or three months credit bills which can be discounted at the small banks, which again can be rediscounted by small banks with the big banks, thereby the traders get financial accommodation without disturbing the money market. Over and above this money remains free in circulation.

Similarly there should be local banks in each district with branches in villages of that district to finance the traders.

May I be permitted to mention here that the system suggested above will increase the purchasing power of goods for which there will ever remain demands and will check the unexpected fall in prices of various goods automatically ? The resources of the indigenous bankers who play the part in the economic development in the mofussil can also be increased to the extent necessary to enable them to meet India's many sided requirements by linking the connections with such banks in the district.

Besides these there should be bonded warehouses in each country and village under the control of responsible persons so that the goods can be stored therein. Traders can thereby arrange their finance when required with the banks or shroffs on the strength of delivery orders of goods issued by the bonded warehouses. I would welcome more foreign banks along with our Indian banks in the principal parts or towns so that the money may be available at cheap rate of interest. I may further suggest a change in the Act for mofussil people to enable them to sell the mortgaged property without going to the Law Court just as it is being practised in the Presidency towns. In such a case the property owners can raise loans on the mortgage of the property without any inconvenience.

In conclusion, I would suggest the promoters of the banks to remove the racial and sectional distinctions in selecting competent men for the internal working of the banks.

IMMEDIATE NECESSITY OF PROMOTING INDUSTRIAL BANKS FOR DEVELOPING THE COUNTRY'S INDUSTRIES.

In boom time so many industrial concerns were started on this side of the Presidency but latterly for want of proper financial aid most of them have come to grief. There is no such banking institution existing at present which can provide financial facility to industrial ventures, be they large or small, and those who have handled and undertaken these enterprises can say with experience that they had to close down owing to want of funds which were not made available to them. Ordinary joint stock banks in certain cases do make advances for a period but it is a well-known fact that unless facilities are afforded to industrial ventures by the grant of long dated loans no useful purpose can be served.

I cannot pass over this subject without making a reference to the Tata Industrial Bank which was said to be the only premier institution of its kind in the whole of India and which was primarily started for the encouragement and development of Indian industries by providing them with necessary funds. I think it would be interesting to know in details the history of that institution.

The said bank was registered in April 1918 with an authorised capital of Rs. 12 crores and the subscribed capital of Rs. 7 crores sixty lakhs. The directors of the bank represented the richest business magnates and the captains of industry. The capital of the bank met a ready response by the Indian public and the shares were over-subscribed.

The object of the bank was very laudable and a number of industries would have progressed prosperously by the help of the said bank had the work been conducted on true banking lines and under the direction of the technical experts. However, with all the elaborate equipment with which the bank commenced its business on the 18th April 1918, the remark made by the then Finance Member, the late Sir William Meyer, at the opening ceremony of the bank on that day proved to be too true in the result. He had advised the directors on that occasion to be cautious enough so that the bank may not turn out only to be a financing house of the Tata concerns. Not only this advice was ignored but the directors without understanding the basic principles of the industrial finance launched irto operations of underwriting share capital of the concerns under Tata's management and others, meddled into the operations of the exchange business and did all such business as proved disastrous to the interests of the bank. Not satisfied with such transactions the management spent a large sum in the beginning over the construction work of the bank's premises. If the capital available to the bank had been spent more judiciously, the bank would have rendered very valuable services in developing the Indian industries for which it was primarily started.

Still it is not too late if the capitalists come forward and join hands in the promotion of such a banking institution and conduct them on the lines on which they are at present being run in the western countries.

EXCHANGE BANKS IN INDIA.

Generally, the business of the exchange banks is to finance the exporters and importers and to afford them such facilities as required from time to time to promote and develop the country's trade. Prior to War the exchange banks used to give financial accommodation to those traders and others before

some local banks were promoted in Bombay and Calcutta. According to my experience, the exchange banks used to give accommodation to the exporters either Indians, Jews or Englishmen by advancing lakhs and lakhs simply on the advice of a shipment by a guarantee letter on one anna stamp even though the goods were not ready for shipment.

No doubt the English firms in export and import trade get the better facilities but the right hand always goes to the right side. It is the misfortune of the Indians that their Indian bankers do not realise the situation and understand their countrymen and are not inclined to support their own trade as the English banks do.

People talk of the Indianisation of the board but the Indian directors have practically done nothing up to now to develop and foster the trade and industries of the country unless and until they are interested directly or indirectly.

I have said at another place that I would also welcome the more exchange banks in India as more the banks the better the facility in trade.

Land Mortgage Bank (Agriculture).

The country's greatest industry is agriculture, but very little attention is being paid by the landlords if they get their rents out of the property in time. The landlords should pay attention to develop their lands on scientific lines to the best of their abilities. Almost all the youths of the country should be diverted to paying attention to the development of the agricultural land as there can be no more honourable profession than that of a farmer and that Government should help them by providing them with schools, colleges and research institutes. That there is a necessity of such a bank to assist the farmers can hardly be questioned. A bank was promoted with a large capital under the name of the Commercial Land Mortgage Bank, Ltd., with its head office at Madras which used to lend money on land and building besides financing the trade. The bank having short term deposits could not recover monies advanced on lands and it had to be wound up after some years. Unless, therefore, Government comes forward to help such institutions by subscribing long term debentures or giving some other facilities any private enterprise in this direction is bound to come to grief.

Indian Savings Bank.

There is so much unemployment of intelligent and middle class people that there hardly remains any saving owing to the high costs of living. In case there may be a saving and the saving habit is to be encouraged there should be special savings banks on special rates of interest and the saving should remain intact. Now-a-days each bank has got a savings bank department where they induce the public to invest their savings in banks. I may be permitted to state that such local and foreign banks ought to have earmarked securities to a certain percentage of the savings deposit for the safety of the money deposited in the savings bank accounts.

Co-operative Banks.

As long as the bank organisation and the method of audit are not improved, co-operative banks may sound well on paper but in actual practice they are not expected to render such useful services to the ryots as it is expected

by them to do. The real needy man gets no accommodation from such banks nor these banks are useful in case of famine. I would prefer the supervision of such co-operative banks to be in the hands of real business men of commercial experience to those of the title-holders only who constitute the directorate of these banks. The balance sheets should be required to be more explicit showing the advances on different heads such as money or land, property and personal security and on the commodities. If the co-operative bank would have accommodated the vast Indian masses for whom really the modern facilities of credit and easy loans are required, Sir Lallubbai Samaldas, the Chairman of the Bombay Provincial Co-operative Bank, would not have remarked that there was no demand of money and thereby they had to invest Rs. 91 lakhs in Government securities. I would say here that in such a case where was the necessity of taking deposits from the public when there was no demand for money by the needy persons. If I make a comparison of a Golwadia Marwadi shroff who charges interest up to 70 to 80 per cent. and keeps a double set of books the very fact that they pay money at the proper time when the borrower has to grapple with difficulties involving the questions of his life and death is really important. However, the methods of keeping books of these shroffs require a thorough overhauling. There should be a strict legislation to control their dealings so as to save the people from going to wreck and ruin by borrowing money at ruinous rates of interest. My point is that the co-operative movement has so far failed to render such useful service to the agriculturists and other middle class people as it was expected to do in the beginning when it was first introduced, and the institution of the indigenous shroffs if revived on right lines is likely to prove very valuable in the interests of the villagers and men of moderate means along with the co-operative banks.

Insurance Companies.

A number of Indian companies were registered in boom time and some of them are working on sound lines though not according to what was stated in the prospectus to attract capital.

The Indian Chamber as well as other public bodies are clamouring against similar foreign companies draining Indian capital to foreign countries ; whereas the other side of the question is totally lost sight of by them, *viz.*, the investment of the insurance funds in Government and other foreign securities. Can anyone say with a clear conscience that the Indian public is benefited by such investments? Indian public have been supporting the companies with business besides subscribing to the capital and the companies have thereby secured the benefit of large funds for disposal under their control. Let us consider what is made of these funds. Mr. Lalji Naranji, *ex*-Chairman of the Indian Chamber of Commerce, as Chairman of the Jupiter General Insurance Company, Ltd., addressed the shareholders at the last general meeting of the company that the exchange banks are not accepting Indian Companies policies. It is a pity that several companies which are working in co-operation and combination cannot find a better solution. Where was the necessity then to complain against the exchange banks ? The company has to find out such a remedy as to make the exchange banks to come to the Indian companies begging for business. The combined companies have now got their funds over two crores of rupees invested in securities. These funds

I would submit can be utilised with advantage by promoting a bank on the following lines by each company :—

20 per cent. of the funds to be invested in Government securities.

10 per cent. to be kept in liquid cash for emergency.

70 per cent. to be invested in a combined insurance bank with the sole object of advancing monies on the commodities of the assured with the usual margin under the supervision of the Board of Directors selected only from the directors of the combined group of insurance companies.

It will be seen that by doing so the bank's money will be safe and the insurance companies get the benefit of securing more insurance business. I consider the above suggestion to be the panacea of all the grievances.

The success of the arrangement suggested above depends upon careful and sound management of the proposed insurance bank. If, however, the management is carried on on the lines indicated below, the venture is likely to prove a disastrous failure.

I have learnt much to my regret that the Asian Assurance Company of which Mr. Jamnadas M. Mehta, M.A., Bar.-at-Law (once M. L. A.), is the Chairman is reported to have purchased a part of the share in the agency commission of the said company in his wife's name for the price of Rs. 35,000. In order to make good the amount of the said purchased agency commission he managed to borrow a large sum from the same company in a different name on the security of saltpan lease on different dates and in addition he got a further advance from the same company against the anticipated amount of agency commission which might be due to him in course of time to be paid to his wife. Such kind of management should be deprecated and stopped entirely.

Under the aforesaid condition there should be a general legislation which can give power to the Registrar of Joint Stock Companies to have an access in business hours to investigate the records of the limited companies and banks without giving any intimation to them if the Registrar receives any complaint from the shareholders.

This practice has a parallel in America where Government enforces a sort of control over the companies' administration at the instance of a *bonâ fide* complaint from a shareholder.

Payment by Cheque System.

Undoubtedly, payment by cheque system is a very convenient one but it will take a long time to popularise the system of using cheques as people are not yet trained to the extent that they should have been, and I hope the following suggestions will not be considered out of place.

That the clerks and officers of the bank should not waste much time to pass the cheque for payment to the party who presents it as it is being done now in almost all the banks.

There should be a certain penalty on the drawer of the cheque if the cheque he draws is not supported by corresponding funds to his credit at the bank.

Each bank ought to open branches in different parts of the city so that the man carrying on business at one end may not have to go to another end for cashing or paying cheques he possesses.

Politeness in dealing with the customers should be one of the qualifications of the officers in charge of the bank.

The Indian Companies Act.

In my evidence before the Textile Tariff Board in September, 1926, I had already expressed my views regarding amendments to the Indian Companies Act. This Act, as it is constituted at present, contains irregularities and disabilities which require to be remedied. Most of the balance sheets of the joint stock companies and banks published under the Indian Companies Act and the Imperial Bank Act are nothing else but scraps of papers from the view-point of the investing public inasmuch as they do not disclose proper details so as to guide the *bonâ fide* investors to an intelligent reading of it and enlighten them on the intrinsic position of the companies or banks.

A reference to the decision of the Government of India, Commerce Department, would be pertinent here to show what serious mistakes that department has made on the 29th March 1927 when they agreed to change Form "F" prescribed in the Indian Companies Act for the balance sheet of a bank.

"The Bad and Doubtful Debts" in that form are permitted not to be shown in the balance sheet if a provision has been made against them to the satisfaction of the auditors. The Government of India do not seem to have realised that the investing public is still in its infancy for investing monies in public companies and banks and it has been found from some of the liquidation proceedings that the balance sheets, whether they are certified to be true and correct by English or Indian auditors, are not what they are represented to be. Strange as it does appear to me, firms of auditors of the reputation and standing of Messrs. A. F. Ferguson and Company in one of the cases in the Law Courts have deposed to the effect that their firm signed the balance sheet without going into the details of it because their co-auditors had signed it. I know of another instance where one of the Indian auditors, namely, Messrs. K. S. Aiyer and Company sent raw school boys to audit the accounts of a bank. I wonder what good could be expected out of such audit.

I would, therefore, like to impress on the Committee the necessity of throwing more responsibility on the auditors as well as the directors of the company.

As regards the responsibility of directors, attention of the Committee is drawn to delete the word "Wilful" from the Indian Companies Act where "Wilful negligence" is used.

Section 282 of the Indian Companies Act is also required to be properly worded and I can make a number of suggestions with regard to other sections of the Act so that the investing public may be benefited by it and the so-called corruption and profiteering by the promoters of the company including the managing agents and directors may be entirely stopped.

Trade depression and its causes.

After the Armistice was declared depression in trade was felt almost all over the world. Ratio in India is not the only cause of depression as it is put forward by men like Sir Purshotamdas and others. Those responsible for the depression and slump in trade are, according to my lights, men occupying

prominent position in economic and political circles. The companies directors are also much to blame for bringing the state of chaos in the market. New flotations of limited companies were undertaken by them in boom time which attracted the investing public to provide capital and these companies having suffered colossal losses mainly due to the mismanagement and the negligence of the directors, slumpness was to be seen in financial operations.

2. Over-speculation in almost all commodities and securities in the shape of forward transactions.

3. Contraction of credit bills whereby the purchasing power of traders is exhausted and hence the fall in prices.

4. Indian capitalists being much greedy to earn without much trouble at the risk and cost of small investors who might have spent money for the development of *boná fide* trade or industry.

5. Borrowing at high rate of interest by Government.

6. Educated middle classes are almost all unemployed.

7. The Imperial Bank having played an important part in destroying our textile industry.

8. Owing to the adoption of Western vices such as races, whisky and wine, gambling in art and skill, cinema shows, and many other Western luxuries.

9. Owing to over-production of cotton, wheat, sugar and cloth in the whole world.

10. Whatever may be the attitude of Government towards the economic and industrial position of India, the desired progress can be achieved only if the hypocrisy, selfishness and lack of sincerity are uprooted from the minds of the Indian capitalists.

BORROWINGS BY GOVERNMENT IN FOREIGN COUNTRIES.

Borrowings out of India can be welcomed if the capital is made available at a cheaper rate of interest, as they will prove to be a great helping hand towards the development of Indian industries.

If Government would not have commenced borrowings at a higher rate of interest, and crores and crores would not have been spent on the Development Department in Bombay and on the construction work of the New Delhi, and if Government had thought it proper to invest those money in productive channels by feeding and nourishing the industries of this country, India would have been by this time in a different position altogether in her fiscal obligations and would have become rather a creditor country in the whole world.

No. 34.

Statement of evidence submitted by Mr. B. Ramachandra Rau, M.A., L.T., Department of Economics and Commerce, Calcutta University.

I.—Industrial Banks and Credit Facilities for India's Main Industries.

Question I.—Taking the Paper Mill into consideration, which was started in Rajahmundry in 1925 (Madras Presidency), the whole of the shareholders' capital was spent in securing the fixed capital and as there was no bank help to enable it to start its actual operations, it had to apply to the Madras Industries Department, and as the loan of four lakhs could not be repaid in time the company had to practically wind up its operations. It was at this juncture that a few generous-minded shareholders revived the enterprise by means of their co-operative effort and the company, I hear, is now able to commence its business in right earnest. It easily follows from this single instance that the fixed capital expenditure and the initial working expenses should first be secured by the shareholders' original capital. If bank help is sought or debentures are floated, the assets become mortgaged from the beginning and no dividend can be secured by the shareholders.

It is current requirements that can be secured from industrial banks on a proper examination of the industrial security possessed by the concern. It is only a bank conducting "mixed banking" business that can afford to grant such non-terminable loans for long periods which enable the entrepreneurs to lock up this money in the industrial venture.

The Imperial Bank grants loans to industries on the personal security of the promoters and in most cases they do not obtain as much as they are entitled to by virtue of their industrial assets. Besides, these are terminable loans and any call, generally, embarrasses the industrialists.

There are finance houses in Bombay and Calcutta who are willing to provide long term loans but their rates are high.

Some of the more successful and well organised firms are floating debentures abroad at a rate of interest which is decidedly lower than what they would be able to obtain in this country.

The commercial banks cannot hope to grant non-terminable loans for long period purposes, for this would lead to borrowing short and lending long on the part of the bankers.

The practice of taking deposits by the industrial mills exists in Indore and Ahmedabad and so long as these are not demanded the industry is able to flourish. This practice is not so universal as many people think it to be.

We do not find the insurance companies willing to help the prominent industries even, as the Western life insurance companies do in those countries. (See Canadian prosperity arising out of it.)

Question II.—Of the three methods that can be pursued, the exporter financing himself by the method of "refinancing by acceptance" is the best method as it would avoid the dependence of this country on the financial resources of another country for financing its trade. Secondly, the importer can ask his banker to issue a letter of credit to the Indian exporter to draw bills on the bank and thus the bills created under the confirmed letter of credit can be easily sold in the market. Thirdly, the commission house staying in this country can likewise ask its banker to finance the exports by the method of "financing acceptances" or ask the importer of the foreign country

to finance his shipment under the confirmed letter of credit. The producer can draw a bill for the amount of the sale of goods and get it discounted in the money market. The Tata firm's bills are eagerly bought in the Calcutta money market. In case of all successful firms and the buyer's standing being of a respectable character there would be no hesitation to buy these domestic bills. This method can be extended to agricultural financing by making the co-operative sale societies or the primary producer (who is not indebted to the mahajan and has not mortgaged the crop already) to draw a bill for the amount of sale and get it discounted at the indigenous banker's firm or ask him to accept it and sell this accepted bill in the market and the co-operative credit societies or the insurance companies can easily discount them if the chances of rediscounting such bills exist. As I have stated elsewhere, the Indian joint banks should finance the indigenous bankers who by discounting these produce loans can easily remove the ryot's dependence on the vicious and injurious system of credit granted by the mahajan.

The present cash credit system to enable the exporter houses to secure the products for export is bad and is not conducive to the interests of the banker and the ryot. I will instance the above remark from the example of the sale of tamarind in the city of Vizagapatam. Tamarind is first collected by the country agents who go to the interior and buy the tamarind at the beginning of the summer. (In the months of March to May the actual sales are held of the new year's crop). After collecting these in big bullock carts they are brought over into the town of Vizagapatam and placed in the market area and the *komati* merchants are entrusted with the sale of these baskets which generally contain one maund or half maund each. From morning six o'clock to ten o'clock these are exposed on the market slab and the intending customers are allowed to mark their own baskets so that they can secure it after the price has been fixed. A big crowd gathers and the *komatis* naturally raise the price of the maund as soon as they realise the strength of the demand. At ten o'clock the price is fixed after much higgling on the part of the buyers and the *komatis* and the original country agents have no voice in the determination of the price. After it is sold at the price of the *komatis*, the country agent gives them a commission and the buyer has to consent to the deduction of a handful of the tamarind from his basket so that at the end of the sale the *komati* merchant secures decent commission which runs to several rupees and in addition he secures tamarind which he stores for sale later on during the course of the year, *i.e.*, June to next March. The inconvenience, double commission and a lot of worry can be removed if the co-operative society (consumers') arranges to finance such sales itself. It has to buy the tamarind out of the actual cash proceeds of its own and arrange to sell it to its members as soon as it is brought over into the town or these bandies. The main evil in the present-day marketing of the different agricultural foodstuffs is the laying down of cash in most cases to these small different producers and the merchant has to undertake the worry of collecting such small outputs from different sources and pay them at the beginning with actual cash. This is how most of the foodstuffs are collected by the enterprising *komatis* or banias or Vaisyas and they naturally cannot be dispensed with so easily by the co-operative sale societies. These merchants know when, where and how to secure the goods and naturally exact a profit for this business knowledge. It would take long time and would also require the production of large quantities of standard products under the aegis of co-operative producers' societies and these can sell them to the co-operative sale societies. It is only in such a case the bill of exchange can be of use and credit instruments can be drawn to finance such purchase operations.

Question III.—The Imperial Bank's Rates rule the market rates at least in the busy season.

Last February the Imperial Bank of India (Bombay branch) withdrew six lakhs from certain cotton mills as there was pressure on its resources. The mill industry naturally viewed it as an unkind cut of fortune.

Question IV.—It is suicidal on the part of commercial banks to undertake industrial financing without taking adequate precautions. If in Germany the credit banks do it, they are able to succeed on account of several lines of, intelligent procedure they adopt to protect their own and the depositors money. Such sort of corporate action and intelligence hardly exist in the case of the commercial banks of our country. Barring their own capital and reserve fund that they might possess and the fixed deposits they might attract they cannot hope to place greater funds than these in non-terminable loans to the industrialists. Their lack of industrial knowledge and constant touch precludes them from conducting industrial financing on any deserving scale.

I would require the starting of a Board of National Investment for this country which would supervise the work of investment trusts and enable these to do part of the work of the financial underwriters. (See my Present Day Banking in India for the work to be done by it, Chapter on Investment Banks). These would popularise the investment habit and the floating of debentures can be easily done so that the requisite capital can be obtained by the existing industries. As for floating new industries in which there are possibilities of success or which have been proved to be successful concerns by the pioneering enterprise on the part of Government the investment trusts can help the underwriting of capital of these new concerns.

India possesses a vast market and a successful trade can easily arise in any of the necessaries or luxuries or comforts of the people provided advantage is taken of the special circumstances of the country. In England the current requirements of the cotton industry are financed solely by the Lancashire banks. America possesses cattle and automobile companies. Both industries have flourished on account of these middlemen and the nature of these companies, if started, would necessarily be of the type of industrial banks.

The facilities that should be given are :—

(1) Exemption for a few years from taxation.

(2) The making of the processes of realisation of money easier than at present.

(3) Initial stamp duty less than at present.

Not more than one-tenth of the capital of the industrial or trade banks should be locked up in any one concern financed by it. No directorial obligation should fall on the heads of the financing banks. The investment trusts can easily undertake this sort of financing and in the case of all the investment trusts in England such an informal rule exists. This rule should hold good in the case of an Investment Trust alone.

But I am sorry that the real problem of industrial regeneration has been overlooked by the terms of this questionnaire.

An economic survey of each province should be made with as little delay as possible. The possibilities of new industries that can be started can be envisaged. Without this preliminary reconnaissance it is not advisable to start industrial banks for each and every province. After all the Tata Industrial Bank did not find much demand for industrial capital. It had to

finance its own industrial ventures and as this was the case it had to conduct exchange operations and general banking at the same time. Journalistic enthusiasm has been responsible for setting up this cry. But a dispassionate analysis would point out that the existing industries can fall under three headings: (*i*) large-scale factory-type industries, such as the cotton mill industry, glass, enamel, pottery, iron, jute, leather, paper, etc., (*ii*) small scale factory-type concerns engaged in the production of silk goods, biscuits, condiments, bangles, leather goods, oil-cloths, waterproof cloths, coir and ropes, bidis (Swadeshi cigarettes), umbrellas, soaps, medical instruments, candles, copper and bell-metal articles, cutlery, hardware, ornaments, rice mills, flour mills, etc., (*iii*) industrialised agriculture, *viz.*, tea, coffee, cocoa, lac and oil-seeds, etc. A glance at the blue book "Large Scale Industrial Establishments" would give detailed information under the above headings and the annual blue book issued by the Registrar of Joint Stock Companies would give detailed facts and figures of the capitalisation of these companies.

Considering the unemployment evils which are fast arising in our society it behoves us to start industrial ventures where there are possibilities of success. For instance, it is an undisputed fact that glass, hand-loom weaving, silk goods, cigarettes, matches, buttons, perfumes, paper, paste board, leather arts, cutlery and hardware, toy manufactures, brass fittings, soaps, biscuits, condiments, pencils, hydro-electric schemes and chemical industries can be started in this country, provided there is a suitable conjunction of financial resources and industrial talent and adequate business organisation is forthcoming.

In the case of the existing industries the most successful method of financing further needed extensions is to build a big reserve out of the undivided profits and the floating of debentures under the aegis of the Board of National Investment. The first depends on a successful board of management. The second depends on the availability of savings in the capital market. The intermediaries to arrange the debenture flotation are to be the investment trusts.

Well established dividend-paying industries have never suffered any disadvantage on any scale under the heading of lack of capital supply. One must speak highly of the capacity of these boards for their ability to float debentures abroad. The managing agency system, under which several of these bigger industries are being worked, looks after the securing of the needed finance and this is one virtue of the much-abused managing agency system. Current requirements or floating capital can be secured easily.

II.—Financing of Foreign Trade.

Orthodox foreign exchange theory asks us to analyse supply and demand for understanding the fluctuations in the exchange rates. The modern exponents of this theory like Cassel, Keynes and others consider the purchasing power parity as the true indicator of the trend of changes in the foreign exchange rates at least in the long run. During the short period speculation, budgetary situation, capital movements, and the buying and selling of exchange funds exercise their influence. Due to the fact that the Government of India pursues a policy of stabilising exchange the deviations from the artificially established par cannot be very wide nor lasting for a long time. During the slack season the exchange rates would be at the lower level or gold export point and unless monetary stringency were to act as a buoy, exchange practically would be only roughly *d.* 1/32 or 1/64 above the gold export point from the country, *viz.*, 1*s.* 5*d.* 49/64. Within these limits it is the exchange

banks that receive exchange news from the chief important centres of the world that determine the rates every day in the foreign countries. These are published in the local newspapers on the next day. The other Indian joint stock banks who conceivably conduct foreign exchange on a limited scale for their own customers adjust their rates on these foreign exchange bank rates. Though there is not much brisk activity on the part of the Indian exchange brokers some amount of arbitraging in exchanges and dealings in futures are entered into on their own account. They are undoubtedly busy making and receiving quotations of rates from merchants and banks and it is not germane to this topic to discuss their activity and bustle at the telephone. Their anticipations, however, do contribute something towards levelling the exchange rates.

Characteristic features of exchange fluctuations.

A scientific study of the exchange rates points out that there are two distinct features, *viz.*, the strengthening of the exchange rate in the busy season and the slackening of the exchange rate in the monsoon season when it is at the lowest level. This general movement is usually smooth and no wide range or spread of fluctuations presents itself. The lack of trade or export bills, the abundance of money in the slack season which is usually in the first official half of the year (April to September) and the floating of the rupee loans whose sole proceeds have to be converted into foreign currency to finance capital expenditure on goods explain the low exchange rate of the rupee. This is the period of weak exchange. Expanding trade, increased export bills and tight money conditions raise the exchange rate to the gold import point of the country. This is the period of strong exchange. Each successive season these features are reproduced with almost clock-like regularity. Under the Gold Exchange Standard system there was a literal pegging of the exchange rates of the silver rupee and no great deviations or spread of the rates could be noticed in either of the seasons. The releasing of gold or gold exchange from the Gold Standard Reserve at the gold export point from the country and the purchasing of unlimited quantities of sterling, whether required for immediate *bonâ fide* expenditure use of Government or not when the exchange rate is fast rising, are the present day methods to curb the exchange fluctuations. Acting as the currency authority Government have been in a position to have tolerable control over the exchange market. On the whole the system has worked fairly well. At certain times Government did not resort to the release of gold from the Gold Standard Reserve at the gold export point but have used the "defence Treasury Bills" to contract currency and steady exchange at 1/64*d.* higher than the gold export point from the country. Similarly, gold might not have been permitted to enter the country by purchase of sterling at rates lower than the gold import point of the country.

According to some measure or other the cherished object of the stability of exchange has been realised. The statutory obligation under the Indian Currency Act of 1927 is being fulfilled. Exchange remains pegged at the 1*s.* 6*d.* ratio. The bankers who dislike the Treasury bills floated at competitive rates or even higher rates than what the banks pay might have noticed a few malpractices. Government are undoubtedly feeling the strain to maintain exchange a burdensome one but the net result that the ratio has been observed must be conceded. The *status quo* has always been maintained and there was no serious exchange slump at any time during these two years under the regime of 1*s.* 6*d.* ratio.

Present-day characteristics of the exchange market:

Throughout this vast continent there is not one important city that can be called the New York or London of India. The position of either the Clive Street of Calcutta or the wider money market of Bombay cannot be compared with that of the Wall Street in America or that of the Lombard Street in the United Kingdom. Though Bombay has greater share of exchange dealings than either Calcutta or Madras, it would be entirely erroneous to minimise the importance of Karachi and Rangoon as important exchange markets.

The first salient characteristic of the exchange markets is the close competition that exists in the market. This can be easily discerned by noting the narrowing of the exchange points. While formerly the difference used to be ranging from 1/2 to 1*d*. on a rupee the present-day difference is only 1/32*d*. on the average. Differences in exchange might sometimes be as low as 1/64*d*. or even worse as compared with the fair difference of the earlier days. Direct rates between Calcutta and the foreign money centres other than London have also been established under the stress of free competition. But such firm connection as exists with London is not to be met with in the case of the foreign centres.

Nextly, many exchange bills D/A and D/P have arisen under the documentary credit principle. With the growth of the volume of trade the market has become wide as well as steady. Bankers' clean bills have also arisen to a certain extent. A clean continuing letter of credit is not generally issued to the Indian importer as yet. So far as the time length of the bills is concerned, thirty, sixty, and ninety days' bills have come into vogue. Sterling bills are predominant and there are not very many rupee bills even in the matter of our trade with the Eastern countries. The lack of an open discount market precludes the early development of the rupee bills and the absence of the latter has been rendering it difficult to create short term money market where these can be discounted. This is the vicious circle facing the banking reformers at the present day. The habits of the merchants and the industrialists also must change before bills of exchange can become more abundant. "Manufactured bills" for emergency currency purposes arise in the busy season and practically disappear when the Imperial Bank realises no such necessity. The market for the exchange bills consists practically of the exchange brokers and the exchange banks. There are not a large number of buyers of hundies in the native bazar even as in the case of the newly created bill market in the Federal Reserve Banking system. The sole burden of financing exports and imports consequently falls on these foreign exchange banks and the London money market in so far as the latter rediscounts the export bills of the exchange banks.

Again there is not much of bank acceptance by the Indian joint stock Banks as in the case of the London Acceptance Credit or the Federal Reserve Banking system of America. Unless an extensive use of bank acceptances is forthcoming and an adequate market exists there would be no proper coordination between the activities of the two kinds of banks, *viz.*, the exchange and the commercial banks. The absence of the rupee bills in the import trade is still a marked feature. If the exchange banks need adequate funds for their operations in India, there is at present no means of rediscounting or disposing of their import bills in this country. They fall back on the Imperial Bank and secure advances on securities or rediscount their D/A export bills in London and send their resources to finance their Indian business.

The Imperial Bank and the Exchange Banks.

The old historical error that the exchange banks financed foreign trade solely with the help of their owr capital resources during the years 1860 to 1900 needs no refutation at all. The Imperial Bank of India finances foreign trade only when it helps the exchange banks who might feel reluctant to move funds from London if better money rates were to prevail there or if rapidly fluctuating exchange rates would threaten to involve them in heavy losses if they were to resort to London. If Indian rates are not high enough the same result would happen. The exchange banks would secure advances on securities from the Imperial Bank and dependence on the Imperial Bank becomes a marked feature at such times. Thus it indirectly contributes at such time towards the financing of foreign trade. But if Government were to force the Imperial Bank to raise the Bank Rate to 8 per cent. as it was done in February 1929, it might tempt the exchange banks to remove funds to India, but much depends on the prospects of the money rates in London and India rather than anything else. The fluidity of capital depends more on interest rates prevailing at the time than any administrative measures. It would not be far wrong to say that under certain circumstances the Imperial Bank might be forced to finance foreign trade also. It must also be remembered that the Imperial Bank is allowed to conduct foreign exchange business to meet the personal requirements of its customers alone. This amounts on ar average to about six crores of rupees.

The defects of the present-day Foreign Exchange Banks.

The chief counts of indictment against the powerful foreign exchange banks as they exist now are that they compete with the Indian joint stock banks not only in the matter of securing deposits but in financing borrowers in the slack season, that they drain away resources from this country for services which can be performed equally efficiently by progressive domestic banks, that they promote trade in materials and the industrialisation of the country is no definite policy of their own, that they refuse to adapt themselves to the requirements of a great agricultural country like India where produce advances are more necessary and should be made freely, that they do not teach us the principles of foreign investment banking, that they stoop to unfair tactics against budding rivals, that they are tending to amalgamate with the London joint stock banks and our future economic development might be served well or ill by these huge financial leviathans, that they do not give an adequate return for the " open door policy " we maintain, that they form a compact homogenous group and give no positive encouragement to the Indian bank officers to rise to positions of responsibility, that they tend to drain away funds from up-country centres to the ports in the busy season thereby leading to better financial facilities to exporters rather than the cultivators and industrialists, that they have not set up economic standards of bank management and organisation before the Indian joint stock banks who are financing internal trade requirements and that they will not fit in in a nationally managed banking service which may be planned in the near future to develop our national resources and create productive industry. In short, they refuse to be instruments of national progress. In view of their past opposition to the Central Bank proposals, it is likely that when the Central Bank is started, they would possibly refuse to co-operate with it. Its resolute leadership might be opposed by these banks and Central Bank

control might become a mere fantastic dream. Almost a deafening and tumultuous roar of criticism would be levelled against their uncharitable and uninspiring conduct before the Central Banking Committee. No one need be surprised at the particular animus that might be displayed by the critics but the ebullition of national feeling is such that many unjust accusations will be levelled and their little foibles would be magnified into serious mistakes.

The above formidable list of their shortcomings and defects does not mean that they are not of any use to this country. As models of sound finance the Indian banking institutions can of course learn something. The Indian depositors would also have to be grateful to them and every failure of an Indian bank has indirectly added to their prestige and deposit-attracting capacity. Their skill, freedom from dishonest manipulation of bank funds for directors' pet schemes and the maintenance of liquidity of their resources are indeed objects which ought to be the subject of proper emulation on the part of the Indian joint stock banks. These have contributed much to raise the level of their steady profits which the exchange banks declare at present.

In view of the fact that the World Economic Conference has passed resolutions to the effect that " no discriminatory legislation " against foreigners should be passed and in view of the powerful influence the exchange bankers wield in the London financial circles it would be impossible to enact any punitive or provocative taxation measures against them. Similar well-drafted laws which can be applied to our domestic banks can be imposed on them. A slight return for the trading privileges can be secured. The systematic training of Indian apprentices in the art of banking can be secured out of these refractory exchange banks. But if any further penal measures are to be thought of such as increased taxation or the withdrawing of the right to attract deposits or the denying of the right to open branches in the interior of the country, they can easily evade them by registering themselves with rupee capital as local banks. Such has been the case in Spain. As the Indian field is wide enough to permit the successful working of a number of banking institutions they would not lose this opportunity to defeat the real intentions of any penal legislation that can be enacted. But as I have stated elsewhere if these local banks are forced to maintain an up-to-date register of shareholders, there would be no possibility to escape this legislation. For the purposes of this act it can be enacted that all banking companies whose shareholders' list has more than two-thirds of its members from outside the country should be considered as foreign banking companies. Without a real change of heart it would be difficult to make them realise our requirements. Our appeal to them to act as indispensable adjuncts to a nation-wide banking system would be vain. The real remedy then is to proceed cautiously and though our policy should be based on the justifiable motive of destroying all vested interests the retention of these banks as useful complements in our banking organisation is the only wise alternative that is left to us.

The financing of our foreign trade with domestic resources.

It has already been pointed out how under certain circumstances the Imperial Bank's funds might be utilised by the exchange banks to finance our export trade. The lack of co-ordination between internal and foreign trade financing breaks down under these circumstances. If the Central Bank or the Reserve Bank were to loan its exchange funds at low rates of interest

after taking proper security from the domestic exchange banks, the financing of foreign trade with home funds can be accomplished. Under certain circumstances such as abnormal exports these resources might be reduced or tightened. But a syndicate of bankers can then be formed to ease the situation if the Bank of England refuses to help the Central Bank by rediscounting its bill assets in London. A syndicate of bankers specially formed for the purpose can be utilised in financing the export bills. It might so happen that the local exchange banks might become saddled with huge London credits arising out of the purchase of export bills. The Central Bank can, however, purchase these exchange funds by issuing an equal amount of notes at home, if such an abnormally one-sided export trade were to lead to the piling up of exchange funds abroad. This is how general trade prosperity fluctuations can be financed by the help of the Central Bank's resources.

In the case of general trade adversity fluctuations when India has to pay the foreign countries the Central Bank can mobilise the foreign investments held by the Indian people. These can be sold abroad while it pays the Indian owners of the same in rupees. It can float temporary loans abroad to have exchange funds for the purpose of meeting drafts on the same at the gold export point from this country. The undue slump of the exchange can be rectified by this method if especially the price movement tends to be relatively stable or constant. There would be no very great alterations from the purchasing power parity unless the exchange dealers lose all confidence in the early revival of trade. As these tend to watch the draining away of the exchange funds kept abroad by the Central Bank their gloom tends to increase. These speculative fluctuations might complicate the situation and retard the process of recovery but their bias would soon become corrected if trade follows the normal course and gives rise to the net balance of payments as in normal years.

The seasonal exchange fluctuations due to seasonal variations confine themselves to the range of a few points. The Central Bank can easily continue the pegging of exchange between the specie points by selling gold or foreign exchange at the gold export point and check the rise in exchange above the gold import point by mobilising gold or gold exchange in its vaults and introducing notes against the same at the gold import point. Mere gold movements would correct the situation. The Ricardian theory of outflow and inflow of gold would preserve the exchange level intact within the gold specie points. A programme of comparative stabilisation of internal prices by the Central Bank would tend to stabilise exchanges at the same time and the dual objective of relatively stable prices and tolerably stable exchanges can be secured without any great friction either to business or banking under an intelligent control and management of the new gold standard.

All this presupposes the existence of the Indian exchange banks and a Central Bank willing to help them so as to finance India's foreign trade at home with domestic resources. Since the dismal experience of the Tata Industrial Bank it is becoming practically impossible to create strong Indian joint stock banks for conducting foreign exchange business alone. Proposals have been made that an Indian exchange bank would have to be started or the present Imperial Bank can be converted into an Indian foreign exchange bank. Considering the impossibility of raising large capital for banking business, at least on this side of India, it would be far better to create an Indian Overseas Bank which would have a part of its capital raised out of individual capitalist's subscriptions and the remainder contributed by the present Indian joint stock banks. It would easily be possible to raise a large

amount of capital according to this method for conducting exchange business at a remunerative scale. If the Indian exporters command better prices for their export bills at the hands of the Indian Overseas Bank, the business of financing export trade would easily be attracted by it. The Indian Overseas Bank should maintain always in its initial stages rates about one or two points more favourable than those of the foreign exchange banks in this country. If the exporters secure greater resources by selling their export bills to the Indian Overseas Bank, than it would be the case when they sell them to the foreign exchange banks they would flock to the standard of the new bank. If the Central Bank were to help it with funds for this purpose at a low rate of interest, more export bills can be financed by the Indian Overseas Bank. More rupees should be granted by the Indian Overseas Bank when purchasing the export bills at differential rates. Of course rate cutting would ensue and for quite a long period the foreign exchange banks would prove to be effective competitors. Similar should be the treatment shown towards the importers. They should be securing greater return in foreign currency by flocking to the standard of the Indian Overseas Bank than when they resort to the foreign exchange bank. It is only by this way that we can hope to create an institution meant for conducting foreign exchange business with domestic resources.

This is the only way of defeating the present monopolistic character of the foreign exchange banks over the exchange situation. This does not mean that the rupee sterling exchange would not rule the day in the near future. All foreign exchange rates would be resting on the rupee-sterling rate for as in the case of most other countries we pay our indebtedness in London. We hold foreign balances in London and any exchange rate would be depending on the rate of exchange on London and adjusted by a current rate of other country—London exchange.

Its advantages.

It remains for me to point out the main advantages of financing our trade entirely with the help of our domestic resources. An unnecessary tribute is being paid to the London bankers who accept our bills and discount them in the London Money Market. Payment in sterling would be avoided and exchange risks need not be thought of. Though the Gold Exchange Standard gives some amount of protection against fluctuations the resulting inconvenience to the Indian exporters in receiving a sterling bill and selling them to Indian exchange banks to receive rupees for them can be avoided. The Indian importer likewise suffers in having to pay a sterling bill drawn against him. Dealings in future can eliminate all exchange risks.

The privacy of a discount market and the keeping of trade information would be achieved under this system. The newly arising national pride resents the financing of our trade solely by means of sterling bills.

Free opportunity for a safe and sound employment of short-term liquid resources would be found in the discount market. The unwholesome over-investment of funds by the present-day Indian joint stock banks in gilt-edged securities can be checked. The immobilising of the bank funds arising out of excessive investment is a grave evil to the existing Indian joint stock banks for it leads to an unwholesome concentration of funds in one direction which is bad finance. The discounting of internal and external bills drawn in the course of trading would diminish the opportunities in the above direction of over-investment in Government securities.

Nextly, the Central Reserve Bank would be powerless and ineffective to control credit if the discount market does not exist. Under the new banking conditions that would exist if a Central Reserve Bank were to be created, this active participation of the Central Banker would have a beneficial influence on the market. To guide and control the other banks and to regulate interest rates and money conditions the Central Bank must have liquid resources to efficiently discharge its public trust of checking undue credit expansion and easing credit when it is unwisely restricted. The smooth and gradual control over the discount and the money market is possible only if the Central Bank can have these bills marshalled in a steady succession of maturities. As a recent writer says " bills discounted and bought in the open market offer an ideal current of maturities. Certificates of Government indebtedness are a poor second. Government bonds and treasury notes have no liquidity at all on the basis of early and successive maturities. Their value as instruments of credit control must depend entirely on their ready saleability, a quality which they fortunately have to a high degree ". It might indeed be true that the Federal Reserve Banks conduct open market operations with the help of Government securities rather than banker's bills. As the open market operations are undoubtedly beneficial to a certain extent these would have to be pursued by any Central Bank and an organised money market would be essential for the success of its measures. It is admitted by Mr. J. S. Lawrence even, that " these open market operations would be very helpful at the time of gold movements, quarter-day adjustments, the attraction and discouragement of international commercial financing and the removal of undesirable items from the bank balance sheets ". The larger ideals of price control and business stabilisation may not be achieved by this " delicate touch " or lever of the Central Bank. Considering the manifold advantages that would arise by the creation of a discount market and the financing of our foreign trade with the help of domestic funds and realising that both Japan and the United States of America have organised similar attempts to remove their dependence on London, our objective should be in this direction. It is indeed true in both these cases that the attempts are not very successful as yet. But they point out unmistakably which way the banking progress lies. A sustained endeavour has to be made by the Indian bankers in this direction. Nothing is so important in the whole field of banking reconstruction as this.

One fundamental feature of this banking reconstruction should aim at diverting the surplus home or domestic funds for the financing of foreign trade and *vice versa*, *i.e.*, surplus of foreign funds for financing home trade and industries. The more extensive use of bank acceptances and an adequate discount market would facilitate the financing of foreign trade. In financing imports rupee bills ought to be developed. Specialised discount houses ought to conduct this operation. It is foreign interest-bearing bills that predominate in the import trade. No foreign exchange bank furnishes us with a report on this situation and most of the bills are drawn in sterling and are kept till maturity in this country and are not rediscounted in this country.

Other ancillary measures.

Nextly, the initiation of a programme which involves thoroughgoing co-operation between the Central Bank of this country and the Bank of England would be essential. Otherwise the Anglo-Indian exchange banks will refuse to obey the penal rates of rediscounting imposed by the Central Bank and resort to the Bank of England or the London Money Market. An independent monetary policy on the part of the Central Bank would never be effective if

the powerful foreign exchange banks with their rich shareholders, intelligent direction and financial support from London wish to run counter to the course of action proposed by the Central Bank of Issue of this country.

Finally, the Central Bank of the country should be intelligent enough to understand the drift of monetary condition in London. If high money rates were to prevail in London, the use of the exchange funds on the call market would enable the Central Bank to secure greater return than before and consequently induce it to lower the Indian rates. The Indian exchange banks would do it, if the Central Bank does not pursue this method. Thus it has to co-operate with the London Money Market and the Bank of England. Their mutual policies should not normally create disturbing influences in the different centres. The question of securing adequate funds can be solved easily by allowing the Central Bank of this country to secure access to the London Money Market and rediscount its bills at the Bank of England. It would also facilitate the stabilising of the money market in this country, and with lower rates prevailing in this country Indian funds can even be removed to London. That this can be accomplished in due course of time need not be doubted.

Our plan ahead.

Although the chief meritorious characteristic of the present-day financing of foreign trade lies in our possessing specialising exchange banks which do not usually tie up their resources in long-term investments in industries or agriculture, still the main improvement needed is the financing of foreign trade with domestic resources. It should be done with the aid of funds raised inside the country. The would-be Central Bank can accomplish much in this direction. Besides securing exchange stability within the specie points, its endeavour should be in the direction of helping the Indian Overseas Bank which would have to be created with co-operative action on the part of the public and the present-day Indian joint stock banks. Acting as the central co-ordinator of banking funds it can take up an active part in controlling credit not only by lowering or raising discount rates but by buying and selling exchange bills at the time the exchange rates deviate from the normal points. Financial co-operation between all these agencies would easily enable us to finance our foreign trade. The use of bank acceptances and the development of a discount market have already been pointed out as the other necessary measures to popularise the rupee bills and they can be drawn in our import trade. The use of bills in place of cash credits in the matter of financing the merchant's requirements ought to take place. Regular specialising discount houses would ease the situation greatly. They can buy bills at banks and act as intermediaries between exchange dealers and bankers and between merchants and bankers. If Indian joint stock banks give up other entanglements and specialise in foreign exchange business, they can easily succeed if they conduct sound exchange banking.

Conclusion.

A comparative price-steadying programme, a proper external borrowing policy on the part of Government, individuals and *quasi*-public bodies, a carefully framed note-issuing privilege and the extension of loans by the Reserve Bank on commercial paper or bills or notes instead of Government bonds thus restricting the scope for exchange speculation are some of the most important measures which our Central Bank would have to bear in mind. These ancillary reforms are essential if the vital question of financing foreign

trade with domestic funds can succeed. With the prosperity of her great exporting industries such as cotton, jute, tea, hides and skins, increasing efficiency of labour, a mercantile marine of her own which reduces the invisible payments under this heading and the prosperity of Indian people emigrating abroad which would tend to an increase of remittances into the country, the net balance of payments would always be in her favour and this fundamental factor would greatly facilitate the task which the Central Bank would have to take up in right earnest. Facilitating free gold movements in normal times and making provision for meeting extraordinary situations as slumps and general trade prosperity fluctuations, the exchange situation can always be controlled by the Central Bank. Under an enlightened and consciously controlled Central Bank which carefully manages its foreign port-folio the present-day Government arrangements for gold exchange funds would disappear. The successful management of the new gold standard by the Central Bank would tackle the situation and eliminate all exchange fluctuations which are very demoralising either to business or finance. The resumption of the new gold standard without exchange-pegging devices will limit the possibilities of exchange speculation at any time. Its liberal help to the Indian Overseas Bank or the Indian exchange banks alone can hope to do something in this direction of financing foreign trade with domestic funds. The present-day tendency of maintaining an *Imperium in Imperio* would be checked and the foreign exchange banks recognising the different or changed political situation ahead might resort to the tactful method of offering a portion of their increased capital for subscription in this country so as to placate public opinion, but the stigma attached to the "foreign banks" would always remain and the local people would securely support and favour local banks. Thus the attempt of the foreign exchange banks would become futile if an intelligent and persistent effort is made by the local banks to finance foreign trade. Entrenched strongly in the favour of the local people these local banks can with the minimum of legislative interference undermine the position of the foreign and Anglo-Indian exchange banks. This is the only rational way of providing an effective solution for a potentially inconvenient banking monopoly. The formulation of such a well-conceived plan would be far more advisable than the enacting of futile and mischievous programmes to limit the services of the present-day foreign exchange banks of this country in the direction of financing our growing foreign trade. The cry that the present number of foreign exchange banks is already in excess of legitimate requirements will of course be raised but it ought not to be allowed to side-track our efforts in solving the main problem of this country. Political independence without financial independence is a misnomer and a will-o'-the-wisp. It is like grasping the shadow instead of the real substance.

III.—Regulation of Banking.

Questions 6 and 7.—It is admitted by all students of banking in this country that the Company Law under which the banking companies have to secure incorporation is grossly imperfect and inadequate in several cases. The Indian Companies Act of 1913 closely followed the English Companies Act of 1908. The amendments of 1913, 1917, and 1928 and the Consolidating Act of 1929 which has come into force from November 1929 have introduced desirable changes in the working of the English Companies Act. These, doubtless, were arrived at after an experience of several years and would doubtless be of great value to the Indian companies and the banking organisations as well.

Such early reconstruction seems to be necessary in this country to check undesirable frauds, risks, and practices which tend to mar the joint stock form of enterprise. Attention will be drawn to these salient features of reconstruction which ought to be incorporated in our banking legislation which might be enacted as a result of the suggestions of the Banking Committee.

Incorporation of Banking companies.

It is indeed true that the Registrar of the joint stock companies in India has power to prohibit new companies to be registered with any name identical with that already in existence. When the National Bank of Indore wanted to be incorporated under that title, the National Bank of India objected to the title and it was decided after all to prohibit the newly started bank from accepting a name resembling that of the older institution. A penalty ought to be imposed on such suggestions. Similarly, there should be regulations prohibiting the use of the words "Co-operative" or "Chamber of Commerce", without the permission of the Registrar of the joint stock companies who might also conveniently administer the newly framed banking law.

The commission charge that has to be paid for underwriting the shares of banking companies should be limited to one-tenth of the price at which they are floated or issued. All these details are to be clearly stated in a prescribed form which must be lodged before the actual payment of the commission. Similar discounts or other commissions paid should be clearly stated or else a fine of Rs. 500 may be imposed on the officer of the banking company.

Permission to decrease or increase the capital of the company by issuing redeemable shares and issue of shares at discount ought to be granted to the banking companies as well as the ordinary companies. The accumulation of capital reserve fund can be permitted for redeeming the shares. No further stamp duty need be paid if new shares are issued in place of redeemed preterence shares.

The oral transfer of shares in order to evade the payment of stamp duty has to be prohibited.

The object of the new regulations should be to establish banking companies upon the secure foundation of an ample capital subscribed and an adequate preparation of such capital paid up and governed by the above rules will promote the safe conduct of these companies. The present-day banking system of capitalisation has mischievous effects and if the measure which requires the paying down of at least half of the subscribed capital at the start of the banking company's business and the remainder within twelve months is adopted, it would be sufficiently wide enough to remove most of the mischievous consequences arising out of flagrant disregard of the same by some of the joint stock banks.

In order to facilitate the amalgamation between two banking companies the new law should facilitate the reconstitution or amalgamation by permitting the transfer of assets and liabilities of the transferor company to the transferee company with the permission of the Court. Dissolution without winding up should be permitted. Relief from capital or transfer duty is to be permitted in cases of amalgamation and reconstruction. Without such facilities the rationalisation of the banking industry is impossible in this country. Such a thing is permitted in the United Kingdom under Sections 55 and 31 of the Finance Act, 1927 and 1928, respectively.

The Court should be empowered in the case of a winding up of a bank to appoint an officer of the Bankers' Association to conduct this economical and convenient winding up. (For the powers to be granted to such an Association and its duties, see my " Present Day Banking in India "—chapter on Banking Organisation.)

The Court must be empowered to declare that all officers who have been declared guilty of fraud should be prohibited from managing the banking company for a period of five years. Any violation of this order should make the person liable to two years' rigorous imprisonment.

Any fraudulent trading with the banking company's money must be rigorously dealt with and two years' rigorous imprisonment must be levied on all such officers, directors or others responsible for this fraudulent mis-management. Any officer convicted under this Section should be prohibited from becoming a bank director in the future for a period of ten years.

Share hawking in the case of banking company's shares ought to be prohibited. Purchase or sale in this manner should be declared illegal.

Sections referring to foreign banking companies desiring to conduct banking business.

In view of the prevailing desire and earnestness on the part of the public to prevent competition of the powerful foreign banks with the newly started Indian joint stock banks the banking law would have to be stiffened in this direction to satisfy popular opinion in this respect. That such laws exist in every other banking system except that of the United Kingdom provide another justification for the same. Firstly, a license fee should be levied by the Registrar of the joint stock banking companies and like restrictions which are imposed on the domestic banking companies in the country of their origin can be imposed on the foreign banking companies. Secondly, these foreign banks can be asked to deposit Government securities as the foreign insurance companies are asked to do. Thirdly, the undertaking of deposit business on the part of the newcomers can be restricted. Fourthly, the opening of branches in places where the Indian joint stock banking companies are working can be restricted by the law by merely stating that permission to open such branches would require the sanction of the Registrar of the joint stock banking companies who has always to be guided by the principle of protecting the domestic banks from uneconomic competition. Fifthly, a special tax on the turnover of exchange operations can also be levied in preference to the existing taxes paid by them. Finally, the submission of periodical returns as it would be the case in the matter of the Indian joint stock banking companies can also be enforced. The most important of all is to impose the necessity of appointing Indian citizens as bank managers and a decent proportion of the bank staff should also consist of the Indian people. Such a law exists in nationalised Turkey. The existing foreign banks can be allowed to work subject to all these regulations except regulation three. The rationale of this exception is that it would otherwise increase the hoarding habit on the part of the people who are now depositing their savings in these banks. I know many nationalist economists (who are editors of vernacular journals and who was eloquent on all occasions on the necessity to patronise everything Indian)—who openly deposit their savings in the foreign banking companies in preference to the existing Indian banks. Sentiment is after all only skin-deep in the case of most of these patriots. All the other regulations carnot be immediately complied

with and some time should be given to these foreign exchange banks to conform themselves to the newly enacted law. It might be that some of the existing banks might like to defeat the intention of the law by forming local banks with the help of few local capitalists but this need not be considered a danger so long as provision exists in the banking law of the country which makes it compulsory for the local banks to keep an accurate index of register of the shareholders which has always to be brought up to date. A company can be declared as owned by foreigners if two-fifths of the amount of the share capital is held by aliens not residing in India. These foreign banks should be subjected to the above regulations. The Registrar of the joint stock banking companies should have the power to examine this register of the shareholders of all the banking companies started locally.

IV.—Banking Education.

General.

Indian commercial education has made vast improvements during the first and the second decade of this century. In spite of the persistent decrying of the quality of commercial teaching a large and expanding system of commercial education has arisen. Besides private unrecognised commercial schools, the Provincial Governments have started in most cases commercial schools and some of the Universities have recently recognized the commercial degree. Undoubtedly it would soon fill an important place in the educational curriculum of our schools and the Universities. Improvements in the technique and equipment of the commercial schools and colleges are also noticeable. These must be considered as significant achievements.

But it is still not nearly good enough. It falls short of the actual needs of the society. The commercial education is assailed on both flanks. Firstly, it is inadequate in amount. Secondly, defects of quality and suitability can also be pointed out.

These defects of quality can only be remedied by spending more. Taking Bengal into consideration the higher commercial education is purely in the hands of the Calcutta University whereas elementary commercial education is in the hands of Government which maintains a commercial school of its own. Apart from the administrative defects arising out of it, the need for co-ordinated progress of educational facilities becomes too apparent. From the elementary commercial education right up to the higher stage of the University, commercial education should be unified in single hands. Another grave feature is that the distinction between the two is more of a class rather than any real competence. It sometimes happens that the same University teachers are working in the commercial school and the quality of teaching does not generally become different in the different classes.

Reforms proposed.

1. *The universalisation of commercial education.*—It might not be immediately practicable, but it ought to be developed as far as present-day secondary schools are concerned. This would correct the over-literary bias of the present-day school education. Instruction in commercial subjects would vary the curriculum. The main advantage is the learning of the right use of the hand and eye from the very early years. The present-day secondary education makes people fit for teachers or clerks and if the appeal to the use of the hand and eye

is made at the same time other qualities would be engendered. This would enable them to grasp the significance of the real problems into which they are likely to enter as soon as they leave the school.

2. The entire commercial education must be under the hands of a single authority in each province. This involves the disappearance of the commercial school or the developing of it into a full fledged college. A properly diversified service can result out of this unified control. Increased number of qualified teachers would be the immediate programme, but a modest start can be made with the existing bodies as the basis of a reorganised system.

3. Training for business life and not mere commercial degree should be the motive of the education imparted. The commercial educational training should be broad enough to enable the pupils to solve the crucial problems that might arise at any time in the particular lines of avocation they have chosen. The recent Report of the Hartog Committee says that workers in the field of education in India have admirable material to deal with. The Indian boy and the Indian girl are not lacking in innate intelligence and in capacity to benefit by the training of body and mind and character which a well-planned system of education can give. Considering this valuable testimony from an impartial authority as true of the actual state of circumstances the State need not shrink from devoting more attention to commercial education.

4. More tutorial classes are needed in the University as well as secondary schools devoting their attention to the teaching of a few of the commercial subjects which they are at present doing. Students not fitted by capacity, to receive commercial education enter the University classes for the commerce degree. The only way of uplift so far as these are concerned is to gradually raise their level by tutorial teaching paying individual attention.

5. The extra-mural education of the Universities can also be of some use in this direction. Workers' houses can be visited and the value of thrift and investment and wise expenditure can be taught. The extension lectures of the Bankers' Association or the Institute of Bankers ought to be on this basis. Ignorance is banker's greatest enemy and if the money-lenders' hold can be relaxed it can only be by training these people to save and deposit their savings in the co-operative banks. The co-operative movement can join hands in this matter and the work of propaganda as well as the training of its officers can be assured by joining hands with the central educational authority in these matters. As co-operative credit societies have to perform similar services (which the joint stock banks can perform) in the near future it is essential to increase the number of trained people available to work these as business institutions on strictly orthodox financial principles.

6. A co-ordination of the activities of such bodies as the Chambers of Commerce, Co-operative Federations and Institutes with the Bankers' Institute is absolutely necessary.

7. The responsibility of Government for commercial education in the cities is great and has been neglected in most cases till recently. The percentage of funds spent on commercial education is very little. It should be one of the aims of the national educational policy to pay more attention to commercial education as a whole. If problems of marketing, exchange, advertisement, actuarial calculations, tariff valuations and other ancillary problems are to be solved, the men at the helm of the commercial concerns should be able to tackle them, and this can only be done by paying adequate attention to problems of commercial agriculture in the first instance.

Neither the elementary schools nor the secondary schools have banking included in their curriculum. In certain schools where commercial subjects are being tacked on commercial arithmetic and book-keeping and commercial geography form important subjects. Bank book-keeping, however, is not again considered as a special study.

In the Intermediate Examination of the Calcutta University and certain other Universities commerce is now recognised as one of the optional subjects. Commercial geography, book-keeping and commercial arithmetic and civics form important subjects. Here again there is not much scope to learn beyond the rudiments of the subjects.

In the B. Com. degree there is full scope or wider scope for the properly equipped student to take up advanced banking, currency and exchange as his optional subject and a study of the money, the exchange, the investment and the capital markets can be made. The syllabus at least gives full scope to these different subjects. It need not be emphasised that everything depends on the mentality of the students and the practical turn of their mind. Most of the commercial schools, Government-owned or private, prepare students for a diploma course and teach banking theory as well as practice.

Question I.—There is and there can be no proper co-ordination between these institutions and the banks for the following reasons. Firstly, there is positive contempt of the practical banker for the theorist who is very often looked down with contempt as weak in practice. An ounce of practice is indeed worth a pound of theory. But practice is a thing which can be acquired out of sheer experience. The principles that ought to underlie practice can alone be imparted in a lecture room. Banking practice can be well illustrated only by those trained teachers who pay proper attention to banking law, theory and organisation which after all limit the proper field of action on the part of the bankers. The practical bankers can revel in actual descriptions of particular or typical situations, say a minute description of a run or panic, but the broad survey of current and contemporary thought and practice prevailing elsewhere and from which good lessons can be learnt cannot be mastered by him for want of adequate time. It is the specialist who has to devote attention to these topics as part of his necessary duty that can give few typical situations and thus adequately guide the pupils in the administrative technique of banks in normal as well as abnormal situations.

Secondly, University pupils cannot be taken on a sort of practical excursion into bank parlours and be made to acquire a practical insight into daily operations, for these students might reveal the few facts and circumstances of individual bank accounts which they might have seen at a glance at the state of the customer's account at the time of their visit to the bank parlour. It must be remembered that they cannot be bound down to preserve secrecy which the customers interests require.

Thirdly, really capable practical bankers are often overworked and they would find very little time in further straining themselves in an endeavour to explain the practical routine to the enthusiastic beginners. Until these possess a lot of imagination and vision to visualise what is taught to them by these practical people they cannot assimilate anything out of the teaching of these practical experts. It must also be recognised that every practical banker cannot and does not necessarily possess the temperament and qualifications to handle class work. It has been my experience to come across successful accountants and auditors who in spite of their varied experience have proved generally very poor teachers to beginners.

Finally, the limited time table routine precludes the satisfactory explanation of the different entries which have to be made in the bank book. The utility of these entries and the possible ways in which a dishonest customer can defeat the intentions of law and the bankers' different methods to secure their interests against such procedure require greater time. A great number of tutorial classes, a large number of lectures on the different aspects of bank organisation, management, history, practice, law and accounting should be acquired and after a proper co-ordination of these different courses a syllabus can be drawn up and specialists in the different line can then better handle the subject and do justice to the importance of the various details which the beginners would have to grasp. It is then alone can it be stated that the different banking aspects are taught in a conscientious manner. There is no Indian institution which does this at present at least or this side of India.

Question II.—Indian banks never afford any opportunity in this respect as do the "Big Five" of London or the American banks. They have not produced a "Dr. L. M. Minty" nor have they sent out a large number of people to understand the significance which the foreign banking systems possess in the economic-industrial organisations of those countries. The extension of the mental horizon and the enabling of them to deal with practical situations at any time should be the dual objectives aimed at.

The Imperial Bank encourages its officers to write short monographs on topics of special knowledge and these are awarded proper encouragement by suitable promotion. Some of these officers have actually consulted me in the preparation of their monographs on indigenous banking, extension of the method of trading facilities by the Imperial Bank and the methods of creating an open discount market in this country. The Central Bank of India also encourages its officers to write short articles in its monthly notes.

There is no enlightened method of recruitment at all employed by any of these banks. There are usually a lot of hangers-on and near relations or dependents of the directors or influential shareholders or customers are taken into the bank and they are gradually trained in the bank routine. The Tata Industrial Bank had one such scheme to train apprentices. The present Imperial Bank has been doing something in this direction, but it does not care for banking knowledge as *one of the important qualifications* on the part of the selected apprentices. Several distinguished students of mine who are now holding successful places in other walks of life tried to become apprentices and they have always mentioned my name in their applications, but no reference was at any time made to me nor were they taken up. Some of my students are now employed in the Imperial Bank and other banks, but their present chances of promotion are *nil* and I can dare say they are in no way inferior to the Western experts brought over for staff appointments. In spite of the gradual lift which the Imperial Bank has been giving them the broad fact remains that they have never risen to positions of responsibility commensurate with their experience, general knowledge and acquaintance with the practical customs and monetary habits of the people.

The co-operative banks are now recognising the importance of trained people to conduct their business in a satisfactory and proper business-like manner. But the period of their training is too short in most cases and is imparted more with the view of learning bank book-keeping and co-operative law prevailing at that time. The wider knowledge of the basic principles of co-operation can never be thoroughly grasped by these trained officers. It would be practicable and advantageous to train these people in combined courses which will fit them for co-operative or commercial banking service.

Question III.—There can be no effective combination of the two until practical people can be lecturing on the different aspects and the junior officers and University students can be made to attend them. The Bankers' Institute can organise a course of lectures as the Gilbert lectures on banking law, theory, practice, and foreign banking methods at the different important commercial centres where a large number of banks exist.

Question IV.—For the U. S. A.'s methods, see Dr. L. M. Minty—American and English Banking methods.

Advanced books on practical banking of the U. S. A. refer to them. For Canada see J. F. Johnson—on the Canadian Banking System—Japan—see Count Okuma—Fifty Years of Japan. If the different Consuls of the foreign countries are approached they would give the current practical methods adopted in these countries.

So far as India is concerned the major banks should go to the important commercial schools or colleges and select the required number at intervals of years—pay them further expenses to have specialised technical courses in banking and commerce at their expense and this need not be refunded if the banks find that the trained pupils do not possess the required temperament for official banking work.

Select number of people should be sent by the major banks to study the methods of the western countries who are sailing in the same boat as India so far as agricultural, commercial and industrial banking are concerned.

Questions V and VI.—The Indian Institute of Bankers is at present under a general body consisting mostly of representatives connected with the Imperial Bank. These can have the whole voice in the management of it if they so desire to do so. All the important joint stock banks should be represented in the Institute and places in the executive body should be filled up by election. A few might be nominated by Government to represent the auditing and lawyer's profession. A few University professors can be co-opted by these to represent the actual teaching side of the banking profession.

Question VII.—The Indian Institute can lend a helping hand in the following ways :—

(*a*) A well-equipped library thrown open to all *bonâ fide* commercial students of schools, colleges and the Universities.

(*b*) Lectures at the different centres.

(*c*) Diplomas after proper examination.

(*d*) Prizes for essays.

(*e*) Annual meeting to discuss foreign methods, improvements, etc., and their adaptability to Indian conditions.

(*f*) Discussion of any legislative measures affecting their interests.

(*g*) General economic research by statistical studies of production, marketing, price-level, etc., so as to facilitate the gathering o data which might be useful in controlling credit by the Central Bank.

(*h*) Train a staff of lecturers who should go into the interior and preach the merits of thrift, savings, etc., and inculcate banking habits.

Question VIII.—These are not conversant with bank book-keeping carried on in the mahajan style. They instinctively understand banking theory and its difficulties, *viz.*, deposit banking and its dangers.

Many of them are not well up with banking organisation elsewhere. Current thought and improvement have no influence on them. They are as static as their almost steady rates of interest.

So long as they continue to act as indigenous bankers they ought to receive general knowledge on the economic services of banks and after this training they can be allowed to start joint stock banking institutions and act as bank directors. Currency, price-level and crises are important economic issues in which their knowledge is deficient and ought to be improved. It would not impede banking progress in any way. They lack general banking knowledge and if they understand the economic organisation of society and the proper rôle of the banker therein, this special knowledge would be of immense utility. They would not be frightened by any responsibility cast on them.

Question IX.—I am afraid they are *nil*. The European banks practically close their doors to University trained men and some of them who are shrewed enough frankly admit that they are not so rich as to pay the high salaries which the University trained men desire as their starting pay. Considering the fact that present-day practice can as well be turned out by *robots* and banking practice in most cases means filling up the blanks in the printed bank forms or ruled books of the bankers the banks are justified in maintaining this attitude. The multiplicity of applicants also affords him an opportunity to throw gibes at the University teachers and the "academic training or book-knowledge" imparted. It is just like "calling a dog by a bad name and hanging it".

The development of branches of the Imperial Bank of India is hindered by the top-heavy salaries that have to be paid to the European heads. Secondly, these European bank officers know how to grant loans on stock exchange securities or any other whose value is definitely known and in all other cases their dependence or the shroff or cashier in the matter of loaning business is too apparent. They naively remark that short term liquid investments are not available in the interior. Branch banking would be bad banking under such circumstances. But they can easily appoint agents in most of the important places of trade in the interior. Retail merchants can be appointed agents and after exacting certain securities a limited amount of business can be done through these agents.

A branch reserve fund in order to offset any possible loss in working any branch extension should be started by those who wish to do their bit in this direction.

Lack of mere push to open branches and conduct propaganda in attracting deposits is generally responsible for the absence of branch banking. As the late Sir Bernard Hunter said "people ask for more loans than anything else and few deposits come in with the result that a branch can be run only by an institution possessing a large amount of capital". Costly European officers to work the branches makes branch banking unremunerative from the beginning. After all these cannot assess the personal security or other kinds of collateral generally offered by the customers in the interior. It is in the interests of the big banks to train adequate personnel to run the whole system economically.

V.—General Banking Organisation, etc.

The definite programme of reform of the joint stock banks falls broadly under two headings, *viz.*, internal and external. The internal reorganisation has to be brought about by the Indian joint stock banks. This

is more important than the external aid for without the former the external agency would either decline to lend aid or even if it were to be rendered, no lasting and permanent improvement can be achieved in the position of the Indian joint stock banks. An external agency can mend the evils but what is required is a radical cure which can arise out of a proper internal reorganisation.

Of the external remedies the administrative measures of Government, further legislation and a more enlightened public debt policy are given proper attention. Co-operation on the part of the depositing public and the borrowing customers and close co-operation amongst the bankers themselves would go a long way in improving the situation. But the creation of a Central Bank of Issue is the proper remedy for many of the present-day defects.

Taking the internal remedy first into consideration, the Indian joint stock banks would have to sacrifice or give up the unnecessarily large holding of Government securities. In their endeavour to incline towards safety they are leaning too much on this support. Sound commercial advances marshalled in a steady succession of maturities are more lucrative than gilt-edged securities. Banks must invest wisely and not speculatively. True wisdom in the matter of bank investment consists in avoiding "frozen assets". The problem of finding adequate business for the released funds would have to be faced. Indirect financing of the agricultural interests through approved indigenous bankers or the financing of the small artisans or traders purely on the personal knowledge of the indigenous bankers can provide the needed avenues and unless they care to cultivate more regular business dealings with the indigenous bankers the mere financing of trade and industry in the big centres would not absorb all their liquid resources. The banking net must be spread wider so as to cover a greater area than at present. It is the financial life of the big cities alone that they are able to influence at present. They must descend to rural tracts and hope to influence the lives of the masses in a significant manner. The real problem of Indian banking is to secure to the Indian joint stock banks power so as to enable them to control the indigenous bankers and they should themselves be controlled in their turn by the Central Bank of Issue. This is the unity and organic relationship that ought to pervade our banking structure. The present day loose and unorganised system has to be displaced by a more concentrated and highly integrated banking system.

Secondly, as one reputed Professor of Economics stated "a banker ought to be two-fifths gentleman, one-fifth economist, one-fifth lawyer and one-fifth accountant". Unfortunately lack of such high qualities renders possible mismanagement of banks. A weak, loose and inefficient audit unable to influence the bankers usually tolerates such inconsistencies, till the day of final reckoning comes when some important incident leads the depositors or lenders of money to doubt the standing of the bank and the attempt on their part to collect the deposits brings to an end the existence of the tottering bank.

An efficient and expeditious service and the expanding of the general agency business done by them is sure to bring in greater deposits and more constituents. Banks have to go to the people and not wait for the people to come to them. If sufficient employment for these funds is secured, the financial strength of the Indian joint stock banks is bound to increase. No time should be lost in attempting to reform and reorganise the internal framework on a sound basis. It is not for the sake of mere self-interest that this reorganisation has to be undertaken by the volition and prescience of bankers themselves. Unless this is carried out immediately the mere setting up of any external agencies would not solve the riddle and even these external agencies would consider these Indian joint stock banks a constant source of anxiety. The help that any

external agency would render can bear fruit only under improved management of the Indian joint stock banks. In the absence of any such reorganisation it would tend to postpone the evil day. It is foul financial weather that is the real test of sound banking and I venture to think that without real improvement in the internal management of the banks their position would become strained, if another crisis of the nature of 1913-1915 period were to happen.

External remedies.

A more enlightened policy on the part of Government with reference to rupee loans and the Treasury bills is needed and everything depends on this important reform. It is absolutely imperative that no further suspicion should be roused that Government is bent on floating further rupee loans in the Indian money market. The slackened response to the last rupee loans means after all that it is high time to consider the advisability of proceeding slowly in the matter of capital expenditure on the part of Government even for productive undertakings. The present market value of gilt-edged securities should not be tossed about hither and thither as a result of the vacillating public loan policy. Further depreciation of the value of Government securities means further cuts in the profits of the Indian joint stock banks and the dividends they declare. Lower dividends mean lower deposits. The lower the working capital the lower would be the profits unless it is offset by greater turnover of the capital resources. This is the vicious circle that is being induced by the present-day public loan policy.

Administrative measures.

Several critics have pointed out the necessity of pursuing a strictly scientific policy in the sale of the Treasury bills. The resort to the Treasury bills as a deflationary measure in order to support the sterling value of the rupee in the slack season is undoubtedly tending to the reduction of deposits available to the banks. Firm money conditions induced by their sale may succeed in bringing about an improvement in the rate of exchange and maintain it at a safe level. The high rates paid for them as well as the long term loans would mean in the long run greater inroads on the taxpayer's purse. This unnecessary increase of tax burden when the taxable capacity is so very low has to be borne in mind. It would have an adverse effect on the purchasing power of the people and trade would not recover rapidly as a result of this deflationary policy which of course is due to their anxiety to keep the exchange rate above 1*s*. 5-49/64*d*. the gold export point from this country. So long as the sterling resources are few there can be no sale of gold exchange or gold at this export point in spite of Act IV of 1927, Clause V. This perhaps is the reason for the anxiety of Government not to allow exchange to fall to the low level of the gold export point from the country.

Legislative measures.

Another direction by means of which Government can hope to protect the directors as well as the public lies in passing helpful and suggestive legislation. Government guarantee of deposits or the formation of "a safety fund" are bound to be mere palliatives and do positive harm to the conservative banks. The possibility of few depositors being selected as bank directors is a remedy

which can only be permitted by a change in the existing legislation with reference to the joint stock banking companies. Those taxes which are interfering with the development of banking amalgamations should be removed. A re-adjustment of the other taxes on a lower level than at present would act as a further impetus in the starting of more banks and in view of the fact that the indigenous bankers are to develop into modern banks this recommendation has to be virtually carried out. The possibility of selecting a few other banks "as public depositaries" after exacting due security would have its own efficacy at the present juncture when even the established Indian joint stock banks are not able to create the needed confidence. It is indeed true that the false tongue of rumour cannot be controlled in any effective manner. Its vivid conjectures can be silenced only by a timely publication of relevant facts indicating the general financial strength of the banks. The financial intelligence of the reading public can after all be a more effective safeguard than any legislative enactment.

Co-operative efforts.

The depositing public and the shareholders would have to co-operate with the bank management in every way. If the depositors are taken into confidence by the managing board there is no reason why they ought to get shy of the Indian joint stock banks. Advisory committees of depositors and influential traders to help the branch managers in the matter of investment of bank's funds would be very helpful.

Sometimes the frauds and malpractices which the banks have experienced from time to time have led to stricter regulation and restriction of credit by the banks with the result that *bonâ fide* constituents suffer as a result of this vigilant attitude. This attitude should not be mistaken by the *bonâ fide* constituents.

The Central Bank of Issue.

The starting of a Central Bank of Issue would indeed improve their situation in several ways. Besides providing rediscounting facilities and thereby enabling them to convert their assets easily into liquid cash, a Central Bank is bound to confer inestimable advantages on them in the following directions. A careful scrutiny of the Central Bank which would be made at the time of rediscounting the eligible commercial paper would automatically raise the standard of banking. The very example of its conservative management would act as an elixir of life-giving tonic to the almost stagnant Indian joint stock banks of the present day and "keep them up to the mark". If the constitutional position of the Central Bank is so devised that it precludes competition with the commercial banks, it would easily afford an impetus to the joint stock banks to extend into the interior in their endeavour to secure fresh business. But the starting of a Central Bank would indeed take some time. In the interregnum the Imperial Bank can render some good to the Indian joint stock banks by hoping to act as a real Banker's Bank. There is infinite possibility in this direction and all credit institutions can be granted liberal advances at one per cent. or half per cent. below Bank Rate on the security of gilt-edged stocks or investments, so long as they fail to convert them into liquid resources. It is not by merely lowering the Bank Rate that the lending policy can be liberalised or made elastic. Less harsh restrictions than are prevailing at present would mean helpful overdrafts to the Indian joint stock banks and a part of the interest-free

national balances secured by the Imperial Bank can be utilised in this manner. This is not entirely a new and dangerous innovation for it is a definite policy of the Imperial Bank to grant accommodation in this manner to business houses and industries. Timely help and succour and not mere spoon-feeding should be the object of this liberalised lending policy. Mere facilitating of internal transfer of funds or remittances at low rates is not by itself a very great help to the Indian joint stock banks. The starting of more clearing houses is another estimable service for which the joint stock banks ought to feel grateful to the Imperial Bank. Something further is needed in the direction of cordial relations between the Indian joint stock banks and the Imperial Bank. Both of them must realise the lessons of the past and be aware of the current developments and current thought.

Conclusion.

A clear and consistent action on the part of all the interests concerned is necessary and the co-operation of the different sections would secure to the Indian joint stock banks a solid ground for their future expansion and economic development of the country. Small Indian joint banks or loan companies are being started here and there. If the monthly report of the Registrar of the joint stock companies is examined, the activity of the people in this direction can be immediately realised. But in the economic sphere it is not mere quantity but quality that tells. Few sound banks can achieve more lasting good and confer more permanent outstanding benefit on the country than many bogus banks which tend to put back the clock of economic progress. National well-being, price-level profits, employment and purchasing power of wages are of essential importance. Their control by a sound banking policy under the capable leadership of a nationally-managed Central Bank would secure the welfare and happiness of the teeming millions of this country.

To sum up, this survey reveals much that is defective in the present day situation of the Indian joint stock banks. To increase their usefulness, self-improvement, external aid and thorough reorganisation of the entire banking structure are pointed out as the measures which can guard them against further deterioration. All parties should co-operate in this endeavour as it is a problem of national importance. The present joint-stock banking system must be made safe, economical, adequate and efficient at the same time so as to afford maximum utility to all sections of the community. Incidentally it can be remarked that the present-day absence of definite trustworthy information or banking statistics has to be remedied as early as possible and such figures as would furnish real information or artfully unfold the tale of banking progress should be published by the different units of our banking system.

No. 35.

Statement of evidence submitted by Mr. R. G. Saraiya, Bombay.

1. It has been suggested to me that I should bring to the notice of the Indian Central Banking Enquiry Committee a few points in connection with the present practices of the exchange banks in India in financing the export and import trade of India which occur to me from the point of view of a merchant engaged in day to day transactions. I see that it has already been brought to the notice of the Banking Committee that the exchange banks are mostly British and foreign banks operating in India and working as a close preserve. They have, I understand, an Association of themselves with its Head Office in London and their rules at each port vary. What is written in this statement is based on my experience which relates to Bombay only and to cotton trade. Any questions of policy, precedent or general usage, are decided by that Association. There is nothing fundamentally wrong in the exchange banks operating in India forming an Association of their own to safeguard their rights, but the fact that the rules and regulations which govern their conduct with their clients—the exporters and importers—are not available to their customers is a fertile reason for a good deal of criticism, and not in the best interests of the trade. Whenever there is a dispute between an exchange bank and its client, the exchange bank has the last word on it and can always quote a ruling of the Exchange Banks Association in support of its attitude. But the rules and regulations of the exchange banks are not available to their client and so he has a grievance, and feels that he cannot argue out his case with the bank on an equal footing. He has thus no redress unless he chooses to take the matter to a law court. It will be readily admitted that under the present conditions in day to day transactions the merchant has to give in *vis-a-vis* the exchange bank. I, therefore, suggest that the rules and regulations which seek to codify existing practices regarding the daily operations of the exchange banks should be published, and made uniform for each port in India, and subsequently if it is found necessary, these rules may be revised by a joint body consisting of the representatives of the Exchange banks, chambers of commerce, both European and Indian, and principal organisations of exporters and importers.

2. Regarding the export trade whenever the drawee is a bank, inter-bank competition has become sufficiently keen and as a rule exporters can place their bills at competitive rates. It is true that some banks are more fastidious than others in the matter of approving the name of the parties whose export bills they may accept. But owing to the keen competition among banks, an Indian exporter with a reasonably decent standing finds little difficulty in placing his bills. The selection of parties whose bills the bank may accept and the limits up to which the banker may accept the bills, are the banker's own province and prerogative and so it need not be criticised. But it is generally felt and will be readily conceded, that if an Indian exchange bank with Indian personnel and Indian management comes into existence, the path of the new exporter will be easier still, because the Indian management will have more sources of information to assess the financial standing and credit of parties. I know of a first class Indian firm working for nearly a century as shroffs who found considerable difficulty in negotiating their bills when they started

as exporters. The foreign exchange banks—the French and the Dutch—were the first to come to their rescue, and now that the credit of the firm has been established as a first class exporter, their bills are as much sought after as the bills of any other respectable firm.

Occasionally exchange banks have objected to accepting the policies of Indian insurance companies. But with the growth of the strength of Indian opinion and of Indian insurance companies this prejudice against Indian companies is slowly dying down. The occasional refusal by a bank manager to accept Indian insurance policies has given rise to a good deal of sore feeling and public criticism. I feel that the best solution of the problem would be for the associated exchange banks to publish a list of the insurance companies whose policies all exchange banks will accept. The associated exchange banks would then be entitled to call for full particulars and even to lay down standards to be observed by all insurance companies, whether Indian or non-Indian, and there would be no room for a capricious bank manager to object to any particular insurance company without solid grounds. The right of an exchange bank operating in India to refuse an insurance policy of an Indian insurance company may well be made the subject of investigation by the Committee suggested by me above in paragraph 1.

3. Regarding the import trade, the conditions are so vitally different that there is considerable room for strong criticism. In fact it is one of the tragedies of Indian foreign trade that the terms on which her export trade is financed are different from the terms on which her import trade is financed. In the remarks which I make hereunder I am writing subject to correction inasmuch as I have not got by me the rules and regulations of the Exchange Banks Association and further, some of the practices mentioned are not subject to any written laws or rules, but merely the result of long usage, for which no authority can be quoted except in the daily experience of some importers.

The machinery of export finance may be outlined here first. When an Indian raw material, say cotton, is exported, a foreign buyer opens a credit with his bank and the draft of the Indian shipper is on the buyer's bank. As a rule it is a three months' sight D/A draft, *i.e.*, the payment for the amount of the draft falls due three months after the draft is presented to the buyer's bank, usually in London and accepted by the bank. But the documents or goods as the case may be are released by the bank presenting the draft, as soon as the draft in question is accepted by the drawee bank. This practice is so common that the most usual quotation of the exchange banks here is the banks' buying rate for three months' sight bills. This rate includes an allowance for—

(1) the customary period, including days of grace, the draft is in transit between the Indian port and London,

(2) the period of usance mentioned in the draft. After acceptance the draft of the Indian shipper can be discounted in the London Money Market and the money of the bank buying the draft here can be released. In fact this draft contributes to the fluidity of the London Money Market.

The machinery of import finance may now be outlined to show the contrast. When the Indian importer wants to import foreign merchandise, he has to open a credit in favour of the foreign exporter with one of the exchange banks here. The credit which is usually opened by the

exchange bank here stipulates as a matter of practice that the draft shall be on the importer and not the bank itself. The draft shall be D/P, *i.e.*, the documents are to be released by the bank only after payment is received by the bank; the amount of the draft shall bear interest at six per cent. (payable by the importer) for both the period the draft is in transit from say London to Bombay, and the period or usance mentioned in the draft. The importer has also to bear interest till the remittance is received by the seller in London. These points are clearly illustrated by the following condition stamped on the majority of drafts drawn on Indian importers:—

> "Payable at the drawing rate of the Bank for demand drafts on London with interest at 6 per cent. per annum added thereto from date hereof to approximate due date of the arrival of the remittance in London, value received."

The full implications of this contrast may be realised if it is mentioned that when an Indian merchant *exports*, the payment for his goods falls due in London *three months* after the draft is presented by his banker in London to the drawee bank, *i.e.*, some 111 days after the goods are shipped. On the other hand, when the Indian merchant imports, the payment for what he buys falls due on the day on which the foreign exporter negotiates his draft in London. The Indian merchant has to bear interest say at 6 per cent. for the subsequent period, *viz.*, the time of transit of the draft, the usance of the draft, and the time the remittance takes to reach back London. In short, interest is on account of the Indian merchant both ways, whether he buys or sells.

It may be argued that the difference in the two arrangements—export and import finance.—is more apparent than real. It may be said that it is all a matter of price, and that the price paid to the Indian exporter includes consideration for the 111 days' delay between the date on which his draft is negotiated and the date on which his draft falls due, whereas the price paid by the Indian importer excludes any such consideration. If the distinction is more apparent than real, it is all the more necessary to remove what appears to be an invidious distinction to many Indians. But the distinction is not merely a matter of calculation only; it throws the Rupee—£ exchange risk on the Indian, whether he exports or imports, it incidentally makes the Indian pay for the exchange risk and brokerage, whether he buys or sells; it makes the Indian bear the burden of the interest rates both ways when the money or the documents are in transit, and the risk of fluctuation in interest in abnormal times falls on the shoulder of the Indian.

4. Exchange banks operating in India are extremely unwilling to open unconfirmed credits for their clients, whereas such unconfirmed revocable credits are the rule whenever Indian commodities are bought by foreign buyers. A foreign firm with a capital of £5,000 would find it an easy matter to get a British bank to open an unconfirmed credit for it, stipulating D/A drafts on the bank. An Indian firm with ten times its capital would find it impossible to open a parallel credit, but must observe the usage of India, *viz.*, the credit shall be confirmed, the draft shall be D/P and on the importer and not on his bank.

5. There is a further severe handicap to importers in the matter of fixing the exchange rates. If the draft drawn on an importer comes through a particular bank, say A, he has to pay for the amount of the draft at the exchange rate of the bank A, even if another bank B is able

to give the importer a better rate. To take a concrete instance, suppose that a demand draft for £5,000 is drawn on a firm XYZ and Co., and is presented by the bank A, who quotes 1-5¾ for the B. C. D. D. rate. XYZ and Co. have no option but to pay the equivalent of £5,000 at 1-5¾ even if another bank is selling D/D at 1-5-13/16. A much desired reform is that it should be open to XYZ and Co. to either (1) pay bank A at 1-5¾ or (2) pay bank A by a D/D of another exchange bank, or (3) pay bank A by its own cheque on London for £5,000. Regarding the third alternative, it may happen that XYZ and Co. have a credit balance in London of £5,000 and have to pay here for drafts or T/T drawn in sterling on them. Then the only course XYZ and Co. have is to retire the draft here by paying at the Rupee—£ exchange rate here. If at the same time XYZ and Co. wish to utilise their balance in London, they have to sell sterling simultaneously. Thus they are compelled to pay the exchange bank both ways. This is an unnecessary toll exacted by the exchange banks. and the rules and usage justifying it should be abolished.

6. To put the import trade on the same footing as the export trade, I suggest that the Indian Banking Enquiry Committee should recommend, and the Indian public should insist, that the imports be priced in rupees, and that the exchange banks open rupee credits for their customers, thus shifting the exchange risk on to the sellers. Whenever possible, such rupee credits should stipulate D/A bills. Incidentally these rupee bills could help in the establishment of a discount market here and could be rediscounted with the Reserve Bank—and thus considerably help to ease the monetary stringency in India. It may be argued that my suggestion is impracticable. My reply is that the world markets now are buyers' markets and the buyers can, if they are well-organised and have their banker's support, dictate their terms owing to the fierce competition between the manufacturing countries of the world. The Government of India have already instituted the system of rupee tenders, and they do not find, I believe, any difficulty in obtaining tenders. In fact the Government of India themselves may make a beginning in this matter by asking their foreign suppliers to draw on them in rupees. The rupee bills on the Government of India, accepted by their bankers, say the Imperial Bank of India, may very well be the foundation of a discount market in India. I am sure that such bills would be keenly sought after by the Indian market and would, therefore, incidentally assist in securing the much needed short-term finance for the Government of India. If the Government of India take the lead, the Indian importer will be quick to follow, and the exchange banks should be asked to make it a point to assist importers who ask for such rupee credits.

The suggestions outlined above may take some time. Meanwhile it is necessary that the present practice of importers being tied to the exchange rate quoted by one particular bank should be strongly discouraged and it should be open to the importer to offer payments for the bills drawn on him by any exchange bank, or where his credit is good by his own draft or T/T on London. In fact in regard to *export* bills it is open for the exporter to negotiate his bills through any bank, say bank B, even if the buyers' credit comes through any other bank, say bank A. There is no reason why this element of healthy competition should be absent in regard to import bills.

7. There is considerable soreness over the penalties exacted by the exchange banks for early or late delivery of bills—both inward and outward. In Bombay I understand that the banks charge 1 per cent. over

the Imperial Bank of India Rate. In Calcutta it is said that the charge is 1/32*d*. per rupee per week. To a certain extent the penalties may be justified, as the exchange banks have to reimburse themselves when their clients do not fulfil their contracts within their stipulated period. But the ground for criticism will only banish when the banks take their clients into their confidence and publish their rules.

A minor grievance is that when a draft on an Indian importer comes through an exchange bank, the importer merely gets a *chit* advising him that such a draft has come (specimen enclosed). The importer has then to go himself to the Bank and examine the draft and the documents. The ordinary interpretation of the term "presenting a draft" would be for the bank to send the draft and the documents to the importer. Common courtesy demands this, and the bank may very well protect itself by presenting the draft and documents to the drawee at his address without endorsing the same. I understand the custom is for the bank to *post* such documents to the drawee in the West, especially in London. I suppose such a petty grievance as this has only to be brought to the notice of the Banking Committee to be rectified.

8. There is one suggestion I wish to offer in regard to the utilisation of the Air-mail. At present exchange banks do not recognise the Air-mail for the transit of shipping documents. This was quite justifiable when the Air-mail service was irregular and unreliable. But with the increasing regularity of the Air-mail, it should be possible for the exchange banks to send all shipping documents and drafts by the Air-mail. To ensure perfect safety the banks can send duplicate documents by the ordinary sea-route. If the associated exchange banks adopt this procedure, it will mean the saving of about a week's interest on export bills. As a first step to the recognition of the Air-mail, the exchange banks may stick to their present rates and basis of buying three months' sight bills, but allow the drawers of three months' sight bills a refund of one week's interest at Bank of England rate if the documents reach safely by the Air-mail.

9. In conclusion, I should like to make it clear that in the above statement my object is to criticise, when necessary, the present system of export and import finance. It is not meant as a reflection on exchange banks in general or any exchange bank in particular. In fact the exchange banks with which my firm have dealings have been uniformly courteous to us and have supplied us with such information regarding parties, etc., as we wanted, and tried to assist us whenever possible, as far as they could, subject to the rules of their Association and the present usage.

ENCLOSURE.

Memorandum from A. B. C. Bank to X. Y. Z.

B. C. No............drawn by...........P. Q...........£...........

Please note that the above demand bill drawn on you has been received in this office for payment. Kindly, therefore, arrange to pay the same at once.

No. 36.

Statement of evidence submitted by Rai S. C. Sarkar Bahadur, M.A., Retired Deputy Magistrate and Deputy Collector, Giridih.

I.—*Industrial Banks and credit facilities for Indian Industries.*

Q. 4.—Financing of Indian industries is not feasible by banks, as at present constituted and by present methods. Such industries are often set up without due consideration of the sources of *raw material*, the *market for the proposed manufactures*, and *expert management and advice* available: that is to say, the origin of a scheme for the revival of an old industry or the organisation of a new one is generally *'sentiment'*,—*not strict business*; it is often more amateurist than otherwise.

Hence, in every Province the *Department of Industry* has to scrutinise such schemes through experts and find out whether they are, or promise to be, practically useful and commercially a good proposition. Then the law for *"state aid to industries"* comes on cautiously to help with finance in the shape of borrowed capital, etc., and with expert advice.

The joint stock banks have not generally the proper agency to enquire into, sift, and scrutinise all the necessary items connected with an industry that has to be financed by them. They are situated far away from industrial centres, and their constitution is a composite of share-holders resident in different and distant parts of the country, without touch it may be, with the actual industry in question. Financing, off hand or haphazard in such cases is ordinarily extremely risky.

Even co-operative banks working in well-defined jurisdictions (generally a district or a sub-district) have, at times, been known to have come to grief over indiscriminate and injudicious financing of small local industries. Enthusiasm in such cases has carried their directorate off their feet, and run away with their sense of caution and prudence when a certain favourite 'industry' has knocked at their doors for financial help.

'Trade' in this part of the country is not yet so developed as to require the creation of *distinct "trade banks"* for special trades.

An Industrial Bank in each Province will, in my opinion, meet the situation, so far as the demand for financing industrial schemes exists. This *Provincial Industrial Bank* should be constituted on *co-operative lines* and should act and operate in conjunction and co-ordination with the *Industries Department* of Government. In fact the *State Aid to Industries Act* may well be administered by the department in this practical way: leaving the financing (as recommended by the *Director* of Industries) to be done by this proposed Industrial Bank. The bank may be helped by Government guaranteeing a part of the working capital. In that case, Government must not advance loans direct or make grants to any such industry from the Provincial revenues; all recommended applications for such being left to be dealt with by the bank.

III.—*Regulation of Banking.*

The sphere of a co-operative bank's operations is already *defined*. There is, under the Co-operative Societies' Act, 1912, a 'residence' qualification for shareholders of a co-operative society (bank of limited

liability) and, the jurisdiction of such an institution has to be stated under the *bye laws* adopted by the shareholders and registered by the Registrar, co-operative societies.

Co-operative financing is applied generally to agriculture and to small rural industries; but it is capable of being directed to production, distribution, and consumption alike; that is to say, there may, and ought to be, co-operative production, co-operative marketing of products, co-operative trading, and co-operative consumption of goods co-operatively produced (Instance: Co-operative Wholesale Societies of England and Scotland).

The sphere open to co-operation should not be restricted by legislation. On the other hand, joint stock banks should by law be modelled more and more on principles of co-operative finance.

Q. 6.—(See latter part of answer to Q. 4 above).

(*c*) Provision of reserves should be insisted on, as is done in the case of co-operative banks and societies, wherein a statutory provision of 25 p. c. of profits going annually to "reserve" obtains and is strictly complied with.

(*d*) A proportion of cash balance to 'time' and to 'demand' liabilities should also be made in the law governing joint stock banks. The balance in reserve for such liabilities should be between 25 p. c. and 40 p. c.

(*e*) Balance sheets, duly audited, should be published every half year and circulated to all shareholders, and submitted to Government (Registrar of joint stock companies).

Q. 13.—At present co-operative banks enjoy some concessions in the shape of exemption from stamp duty and registration fees on documents. Receipts for payments to member depositors and members of co-operative societies are exempted from stamp duty (receipt stamps). Cheques issued on banks are free. A rebate is allowed on money order commissions paid in remittances through Post Office.

A few further concessions can be moved for, as equitable and important and perhaps urgent. These are (1) Court fees on execution of awards obtained by co-operative banks and societies should be exempted. Court fees are levied in the shape of stamps (Court fee stamps—judicial). If the societies are, under the Government Rules, exempt from stamp duty in their transactions, it does not stand to reason that they should have to incur Court fee costs in executing their decrees (awards) through the Civil Court. Moreover, these "costs" in Court ultimately fall on members of rural societies who have defaulted in payment, and prove a burden,—lessening to some extent the beneficient efforts of the financing bank in advancing loans on moderate rates of interest.

(2) The profits of a co-operative society (bank) and the 'dividends' paid to shareholders of such out of the 'profits' should be exempted from assessment of income-tax. Co-operative societies are not 'profit-making' concerns; and they are never out to make any real profits in business, for profits sake. Economy and thrift and business-like methods pay; but most of the profits are circulated through charitable channels for common good in the villages.

IV.—*Banking Education.*

Q. 1.—The existing facilities for banking education in schools, colleges and Universities in India are meagre and not well-organised, from the

bottom upwards to the top. At the arts colleges and other Universities 'banking' is taught as a part of the syllabus on 'economics'; but I am not aware whether this higher teaching is brought into direct contact in practice with the Banks in active operation in the country. I refer here to the practical side of the teaching. I have not heard of any economics students from the Universities or the colleges being apprenticed for practical work in bank offices close to them. Co-operative methods and principles of business should form part of all high schools' curricula.

Q. 2.—Similarly, banks do not, so far as I know, provide on their part any facilities for the training of boys in banking business.

So far as co-operative banks are concerned, the idea is abroad of giving a training in business methods on co-operative lines to probationers wanting to be employed in the department.

There is no well-organised "co-operative service" as yet; but recruitment of paid staff is on reasonable lines already; each bank choosing its employés from out of the waiting lists of trained probationers passed out from Sabour, maintained in the office of each Assistant Registrar of co-operative societies.

Speaking of this Province (Bihar and Orissa) one may point to the existing Training Institute at Sabour (Bhagalpur), which has a nine months' course of regular Co-operative Training (including banking) for intending candidates (generally matriculates). There is a Co-operative Training School now at Cuttack also for Orissa; and at the Giridih centre (Hazaribagh District in Chota Nagpur), an attempt is being made to work a 'Co-operative Training School' on a smaller scale to meet the demand for trained probationers to work in the Giridih area, (under the Giridih Central Co-operative Bank Ltd.).

V.—*General Banking Organisation, and Money Market.*

Q. 14.—In order that further facilities may be afforded to industry and agriculture, the resources of co-operative banks may be augmented (1) by Government advancing loans at 3 p. c. (free of interest for the first three years) to such banks, (i) for building purposes (*e.g.*, building of houses to locate village societies and central banks)—building of common granaries, store houses and warehouses, etc., and (ii) for irrigation purposes (*e.g.*, construction of irrigation reservoirs in villages, ahars, bandhs and the like); (2) by local authorities placing their funds in fixed deposits (or even current deposits) with such banks at 4½ p. c. interest (3) by Government extending the facilities for savings bank deposits to such banks as in the post office; and (4) by Government enacting a provision in the existing Co-operative Societies Act, authorizing or requiring application of "reserves" and 'profits' by co-operative societies up to a stated limit for agricultural improvements and industrial organisations (preferably in connection with local "cottage industries").

No. 37.

Statement of evidence submitted by V. B. R. Sarma, Esq., G.D.A. (G. D. C. A.), Public Accountant and Auditor, East Godavary District.

As one interested in co-operative banking which is included in the terms of enquiry of the Central Banking Committee, I have the honour to place the following views of mine regarding co-operative auditing before the Committee.

Section 17 (1) of the Indian Co-operative Societies Act of 1912 reads thus:—

> "The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year."

Thus the duty of getting the accounts of every society audited devolves on the Registrar. The Registrar, in every province, generally authorises his staff of inspectors to audit the societies.

I suggest that the Registrar should authorise some public accountants and auditors to audit the accounts of these societies. A similar practice is existing in England where the Registrar of Friendly Societies authorises a particular public accountant to audit the accounts of societies of a particular locality after fixing a particular scale of fees. I wish to mention the following as reasons for the above view:—

(1) The society belongs to the shareholders, the interests of the depositing public also being involved in it. So the interests of shareholders and depositors should be watched closely by one who is elected by them. As against this it is said that since every society depends for its loanable capital on the Central Bank, some one interested in the Central Bank like the Government inspectors or Central Bank inspectors should audit the accounts of societies. To bring the two conflicting views into line, inspection by an outsider who commands the confidence of the shareholders and of the investing public and also of the Registrar is advisable.

(2) Inspection by Government or bank inspector is mechanical, routine and formal. His (inspector's) responsibility ends with his work. He does not possess the required professional skill and knowledge. He has not even means of compelling societies to adequately discuss his report and adopt his recommendations which coming from an independent public auditor are likely to be regarded in high esteem.

(3) In some provinces like Madras, provision is made in the rules framed by the Provincial Government, that societies may get their accounts audited by certified public accountants and auditors.

The above rule was passed some years back. But there is hardly a society that is getting its accounts audited by a certified auditor. The reason for this is that since every society depends for its loanable capital on the Central Bank, the Central Bank insists either Government inspection or inspection by its own staff. I know cases where the societies that wanted to get their accounts audited by certified auditors were refused loans by some Central Banks. The reason for such refusal adduced by the Central Banks is that they have no confidence in the audit reports of

certified auditors. The sincerity of the contention of these Central Banks is a thing which is to be considered by and enquired into by the Central Banking Committee. In this connection I may bring to your notice that the Government of India by granting auditor's certificates to auditors who have undergone five years' theoretical and practical courses in accountancy and auditing have certainly placed every confidence in these auditors, who they (Government) are sure would protect the interests of shareholders in Public Companies and Banks.

(4) Another experiment leading towards centralisation of audit through Audit Unions was tried some time back in some provinces like Madras. The failure of this experiment is recognised by Government and also by the leading co-operators of the country.

(5) Mr. Wolff, father of co-operative movement in the West, while discussing Government inspection in the Indian co-operative movement, wrote in the year 1906—

> "Inspection is not a wholesome frame of mind to put your public into. And the evil greatly aggravated when the Inspector provided, even as an alternative only, is a State Officer. Inspection by such an Officer is in truth worst that can be devised."

> "In making this remark I of course except new countries like India at the present time, in which inspection by the Registrar is unavoidable because there is as yet no one else to inspect. But this is a purely temporary condition of things, and should not last beyond the elementary educating period of co-operative banking." (Underlined by me.)

As the movement is now passing more through the business period of co-operation than educating period, some change in inspection is, I think, a necessity.

(6) The Indian Co-operative Societies Act is largely based upon the Friendly Societies Act and the Industrial and Provident Societies Act of England. The practice existing there, as I mentioned before, is to get the accounts audited by public auditors appointed by the Registrar. A further amendment to the English Act, called the Industrial and Provident Societies Amendment Bill, was introduced in the House of Commons and passed through its second reading on 5th December 1929. Provision is made in this Amendment Bill for audit by independent public auditors (as distinguished from public auditors appointed by the Registrar) like audits of companies registered under Companies Act.

I, therefore, suggest that rules may be framed under the Act by each Provincial Government to the following effect:—

1. Certified public accountants and auditors be appointed by the Registrar to audit the accounts of societies and banks at a prescribed moderate scale of fees.
2. Some more liabilities, if necessary, may be attached to such auditors.
3. The appointment of such auditors be made annually by the Registrar.
4. Each auditor be appointed to audit the societies of a particular locality or district.

5. Such auditors should not be prohibited from practising as public accountants and auditors.

I trust your kind perusal may give due weight to the above views of mine.

THE INDUSTRIAL AND PROVIDENT SOCIETIES (AMENDMENT) ACT, 1913.

3 AND 4 GEO. V. c. 31.

Audit of Accounts.

2. (1) Every registered society shall once in every year submit its accounts for audit to one or more of the Public Auditors appointed under the provisions of the principal act.

(2) An Auditor shall not hold any other office in connection with the society.

Annual Return.

3. (2) A registered society shall, together with the annual return, send to the Registrar a copy of the Auditor's report and a copy of each Balance Sheet made during the period including in the return.

Triennial Returns of Shareholders.

4. A registered society shall, once at least in every three years, make out and send to the Registrar, together with the annual return for the year, a special return signed by the auditor or auditors showing the holding of each person in the society (whether in shares or loans) at the date to which the said annual return is made out: Provided that, where such persons are in the list of members kept by the society distinguished by numbers, it shall be sufficient if they are distinguished in the special return by such numbers, and in that case it shall not be necessary to specify their names.

FRIENDLY SOCIETIES ACT, 1896.

59 AND 60 VICT. c. 25.

Audit.

26. (1) Every registered society and Branch shall once at least in every year submit its accounts for audit either to one of the Public Auditors appointed as in this Act mentioned, or to two or more persons appointed as the rules of the Society or Branch provide.

(2) The Auditors shall have access to all the books and accounts of the Society or Branch, and shall examine the annual return mentioned in this Act, and verify the Annual Return with the accounts and vouchers relating thereto, and shall either sign the Annual Return as found by them to be correct, duly vouched, and in accordance with law, or specifically report to the Society or Branch in what respects they find it incorrect, unvouched, or not in accordance with law.

Public Auditors and Valuers.

30. (1) For the purpose of audits and valuations to be made under this Act the Treasury may appoint Public Auditors and Valuers, and may determine the rates of remuneration to be paid by Societies and Branches for the services of those Auditors and Valuers; . . . . . .

(2) The Treasury may, out of money to be provided by Parliament, pay to the Public Auditors and Valuers such remuneration as the Treasury may allow.

CONDITIONS UNDER WHICH PUBLIC AUDITORS HOLD THEIR APPOINTMENTS, AND SCALE OF FEES.

Appointments and Scale of Fees.

1. Public Auditors are appointed to act in England and Wales, Scotland and Ireland. They will not, however, be ranked as public servants, and will have no salaries, nor any claim to pension or gratuity. Nor are they to assume the title of "Government Auditors" or any similar one; but are simply to describe themselves as "Public Auditors under the Friendly Societies Act, 1896, and the Industrial and Provident Societies Act, 1913." Public Auditors are not permitted to make any use of Royal Arms.

2. The Public Auditor is bound to accept for audit (except as hereinafter mentioned) the account of any Society within that portion of the United Kingdom for which he is appointed, registered either under the Friendly Societies Act, or the Industrial and Provident Societies Act, which applies to him (the term "Society" to include a branch of a Society), for the fees hereinafter mentioned, the Society complying with the terms of these instructions. But no Public Auditor can audit the accounts, balance sheet, or annual return of any society of which he is an accountant, or any account, balance sheet, or annual return which he has himself prepared.

3. A Society desirous of submitting its accounts to a Public Auditor must forward all the necessary materials to his office or place of residence, in order to save travelling expenses or loss of time. It will be the duty of the Auditor, when applied to, to impress this upon the Society. He is not bound to leave his office for the purpose of the audit.

4. The Society must at the same time, forward to the Auditor the annual return or general statement of the receipts and expenditure, funds and effects of the Society, made up in the form for the time being required under the Friendly Societies Act, 1896, or the Industrial and Provident Societies Act, 1913, as the case may be.

5. The Auditor is to verify the annual return with the accounts and vouchers relating thereto, and either to sign the same as found by him to be correct, duly vouched, and in accordance with law, or specially to report to the Society in what respects he finds it incorrect, unvouched, or in accordance with law.

6. The work of the Auditor will be strictly confined to auditing, but he has under the Acts a right of access to all the books and accounts of the Society. In the event of his discovering errors in the annual return, or the books, accounts, or vouchers submitted to him, they are to be returned (at the cost of the Society) for correction, unless the Auditor be requested by the Society to correct the inaccuracies, in which case he is entitled to claim an additional fee, to be arranged between him and the Society.

7. The Auditor shall, in all cases, make a Report to the Society upon the accounts and other documents submitted to him, and, in case he has called for explanations or information from the Directors or Committee of Management, he shall state whether such explanations or information have been given, and whether they have been satisfactory.

8. For auditing the accounts of Friendly Societies and specially authorised Societies granting Friendly Society benefits, the scale of payments shall be:—

	£	s.	d.
For Societies consisting of not more than 100 members ...	1	1	0
For Societies with over 100 members but not exceeding 500 members, in respect of each 100 members or part thereof	1	1	0
For Societies consisting of over 500 members, in respect of the first 500 members	5	5	0
With an additional 10*s*. 6*d*. in respect of each additional 100 members or part thereof, no fee, however, to exceed £52 10*s*., unless by special arrangement.			

For auditing the accounts of all other societies registered under the Friendly Societies Act, *viz*., Cattle Insurance Societies, Benevolent Societies, Working Men's Clubs, especially authorised Societies (except such as grant Friendly Society benefits), the scale of payment shall be:—

	£	s.	d.
For Societies whose total gross receipts do not exceed £2,000 per annum	1	1	0
For Societies whose total gross receipts exceed £2,000, but do not exceed £10,000 per annum, in respect of each £2,000 or fraction thereof	1	1	0
Where the gross receipts exceed £10,000 per annum, the fee to be fixed by private arrangements.			

9. For auditing the accounts of Industrial and Provident Societies the scale of payment shall be:—

	£	s.	d.
For Societies whose total sales do not exceed £2,000 per annum	1	1	0
For Societies whose total sales exceed £2,000, but do not exceed £10,000 per annum, in respect of each £2,000 or fraction thereof	1	1	0
For Societies whose total sales exceed £10,000, but do not exceed £25,000 per annum, in respect of the first £10,000	5	5	0
With an additional 10*s*. 6*d*. in respect of each additional £2,000, or fraction thereof.			
Where the sales exceed £25,000 per annum, the fee to be fixed by special arrangement.			

The word "sales" in the case of Societies for the buying and selling of land, to include instalments in repayment of advances.

The scale of fees apply only in cases where the Society is located within the district assigned to the Auditor employed. If a Society employs an Auditor appointed for any other district, special terms may be arranged. The Auditor may accept audits on terms lower than those of the above scale.

10. Auditors shall hold their appointments from year to year, beginning on the first day of January in each year. The Treasury reserves to itself entire discretion as to their re-appointment.

11. They shall send in half-yearly to the Chief Registrar of Friendly Societies, a list containing the names of the Societies audited by them during the previous half-year, and the fees received from each society, distinguishing Societies under the Friendly Societies Act from Societies under the Industrial and Provident Societies Act. Neglect to do this will be held to be a disqualification for re-appointment.

12. The scale of fees above laid down will only remain in force from year to year. At the end of any year they may be confirmed or altered in such manner as the Treasury may direct.

RULES FRAMED BY THE GOVERNMENT OF MADRAS UNDER THE INDIAN CO-OPERATIVE SOCIETIES ACT, 1912.

Rule No. 8 (*d*):—

(1) Save as otherwise provided in sub-rule 2 every society which is not a member of a Audit Union or of a Supervising Union or does not make a monetary contribution towards any scheme of supervision in the district in which the Society is working or does not have its accounts audited at its own expense by the staff of the district federation or by a Certified Public Accountant and Auditor shall pay to the Local Government the charge made for the audit of its accounts in accordance with the scale fixed by the Registrar with the previous approval of the Local Government.

(2) This rule shall not apply to Audit Unions, Central Banks, District Federations and Supervising Unions, but shall apply to the Madras Central Urban Bank Limited.

No. 38.

Statement of evidence submitted by Mr. A. D. Shroff, B.A., B.Sc. (Econ.), London, Bombay.

CREDIT FACILITIES FOR INDIA'S MAIN INDUSTRIES.

I propose to restrict myself to the consideration of credit facilities for three principal industries of India, *viz.*: (i) cotton; (ii) iron and steel; (iii) hydro-electric, other electric and public utility companies. Of course, agriculture is the staple industry of the country on which more than seventy per cent. of the population depend for their living; but as I have dealt at length with the credit requirements of agriculture in my memoranda to the Bombay Committee I would refrain here from traversing the same ground.

(i) *Cotton Textile Industry.*—

There are about 337 cotton textile mills in India with more than eight million spindles and one hundred and fifty thousand looms. This industry provides employment for more than three hundred and fifty thousand hands and consumes almost half the production of cotton in India. Bombay is the principal centre for this industry with seventy-nine mills having an aggregate paid-up capital of nearly twenty crores. These figures will be sufficient to show the importance of this industry which has also the distinctive character of being mainly owned and run by native capital and talent.

How has this industry been financed? The fixed capital has been found from the paid-up share capital and in some cases supplemented by debentures. Excepting a very few mills which have a part of their capital in preference shares, the share capital consists entirely of ordinary shares of face values varying from Rs. 25 to Rs. 1,000 per share. There has been a commendable tendency in recent years to split up shares of large face-value into shares of smaller denominations with a view to bring them within the easy reach of small investors. In some cases, extension of the fixed plant and machinery was wisely provided out of issue of preference shares at a time when the company had established a sound reputation by its unbroken record of dividend payments. For instance, the Central India Mills managed by Tata Sons, Limited, raised in recent years additional capital of Rs. 50 lakhs by the issue of preference shares carrying a dividend of 5 per cent. tax-free. Financial prudence, as proved by experience, demands that the block expenditure of an industrial concern must be mainly found out of paid-up capital. It is not only imprudent but dangerous to go on enlarging the block account without reference to the amount of the paid-up capital. Failure to observe this simple teaching of experience has at present embarrassed some of our otherwise very sound and prosperous cotton mills. I consider it, for instance, a very unwholesome practice to have a paid-paid capital which is only ten per cent. of the block account, or in one extreme case only four per cent.

Debentures are issued for limited periods ranging from ten to twenty-five years on the security of the fixed assets consisting of land, buildings, plant and machinery. The necessity for raising money on debentures arises out of extension of plant and machinery or introduction of new

devices to improve the efficiency of the old plant. In some cases, debentures are resorted to as lenders would not agree to advance money otherwise. The amount for which debentures are issued by any mill is determined by a conservative valuation of its fixed assets and also by the state of the industry at the time of issue. For instance, I find that some mills find it difficult to raise debenture loans for one-fifth the amount at which their fixed assets stand in their books. If we disregard the present period of abnormal difficulty for this industry, debenture loans generally cost about seven per cent. per annum, with the additional cost involved in commission, stamps, etc. The underwriting commission or brokerage varies from two to five per cent. Generally speaking, most of the debentures issued are held by some of the Native Princes and are not freely marketable like debentures of other industrial companies like Tata Iron and Steel Company or the Tata Hydro-Electric Company. As far as mills in Bombay or with Bombay agents are concerned, I find that banks have practically no interest in this method of financing the cotton mill industry.

The working capital is found from two sources: (1) deposits; (2) bank loans and cash credits. With very few exceptions, cotton mill companies generally depend for their working capital to a considerable extent on deposits received from the public. These deposits are in most cases for six and twelve months and the rates vary with the credit of the individual mills and of their managing agents. The importance of this source of working capital is proved by the fact that for the year ending 31st December 1928 the amount of deposits received by 25 mills reached the aggregate total of Rs. 5·08 crores. To take some individual instances, Sholapur Mills with a paid-up capital of Rs. 8 lakhs had Rs. 1·30 crores; Swadeshi with a paid-up capital of Rs. 20 lakhs held Rs. 42 lakhs of deposits. Public confidence, till very recently, was so well established that good mills were able to obtain deposits not only at the same rates as quoted by banks but in some cases even one-half per cent. cheaper than banks. Recently, however, the furious career of Treasury Bills on which Government have embarked and the high rates paid thereon have made it extremely difficult for mills to obtain their usual deposits even by offering higher rates. In this connection, I would strongly exhort this Committee to study in detail the effects of twelve-month Treasury Bills issued last year and if satisfied, as I am confident they will be satisfied, to impress Government with the desirability of abandoning such issues in future. Not only have they robbed the mills largely of their working capital but have competed severely with bank deposits with the result that whilst with attenuated resources mills have to turn to banks for loans, the latter have either to refuse or drastically curtail such advances except at increased rates of interest. To complete the picture, I must add that these difficulties have been aggravated in some cases by the financial weakness of the managing agents.

This method of obtaining working capital has been criticised, particularly by bankers, on the ground that unsecured loans carry with them the temptation of over-trading. It is quite possible that with money easily obtained and at comparatively cheap rates, mills in the past have speculated in cotton or have carried larger stocks of finished goods than justified by the state of the market. We have also had the sad experience of this facile credit being used for extension of plant and machinery with the inevitable result that in adverse times like the present when the volume of this credit is shrinking, a lack of adequate working capital is

being keenly felt. Many an industrial concern has foundered on this rock of short term capital having been tied up in fixed assets. But on the other hand, under prudent and conservative management, cotton mills in India have been greatly assisted by these deposits and it would hardly be fair or reasonable to condemn this method of financing in general because of the imprudence and lack of ballast of some mill agents.

(2) *Bank loans and cash credits.*—I find that till recent years cotton mills in India did not obtain much assistance from banks in their working finance. At present, however, most of the mills in Bombay have certain arrangements with banks by which they obtain loans on the security of stocks of cotton and cloth, both manufactured or in process. In some cases, loans are raised on gilt-edged securities deposited with banks; in some cases only, on the promissory-note of the company with a copy of the resolution passed by the Board of Directors. In several cases, banks insist on the additional guarantee of the managing agents over and above the stocks hypothecated to them. As a rule these loans or cash credits are arranged for twelve months and are renewable thereafter. The rate of interest is usually made to vary with changes in the Imperial Bank of India Rate, with a fixed minimum in some cases. In cases, banks insist on the half-interest clause, *i.e.*, the borrower must pay to the bank interest on at least half the amount of cash credit, irrespective of the amount drawn. This is not unreasonable in view of the fact that the bank carries the obligation of providing the full amount of the cash credit whenever demanded by the borrower. The stocks of cotton and cloth are stored in the godown of mills to which banks are given full access, whenever desired. The borrower furnishes weekly or monthly returns of stocks to banks, and the usual margin to be maintained by the borrower is twenty to twenty-five per cent. for cotton and cloth in bales and forty to fifty per cent. for cotton and cloth in process.

For the year ending 31st December 1928, bank loans and cash credits to twenty-five representative cotton mills in Bombay stood at Rs. 2·47 crores. Whilst the Imperial Bank of India, the indigenous banks and some wealthy private bankers are principally interested in this business, recently exchange banks have also entered the field. I believe it is now an open secret that the Imperial Bank recently made a drastic reduction in its loans and cash credits to cotton mills. This action was criticised at the time in the public press and had it not been for the timely assistance of some British banks and private bankers it might well have resulted in a severe crisis in Bombay. I am prepared to concede that the management of the Imperial Bank cannot but be left to the discretion and judgment of the Governors but I think it will not be questioned that it is the duty of banks in general and of a semi-public bank like the Imperial Bank in particular, to nurse our premier industry in its present sad plight. I mean business and not charity when I say that assistance and sympathy at present are in the larger interests of banks than callousness and loss of proper perspective. I have to record here the painful experience of certain mills which are refused accommodation on the security of stocks with usual and even more than usual margins and with agents' guarantee for repayment. It cannot be in keeping with banking business if our banks refuse to show enterprise and take reasonable risks. If India is to make any headway in the development of industries, I would request this Committee to advise our banks to take a leaf out of the book

of English banks which have recently stood solidly by their industrial concerns. In a debate in the House of Commons on the 19th December 1929, Mr. Hammersley stated that at least 200 mills in Lancashire were in the power of the banks, with 90 per cent. of these in the financial control of four banks. I would leave this Committee to imagine the plight of Lancashire if English banks assumed the same attitude as banks in India did. I would also invite the attention of this Committee to the part played by English banks in the reconstruction of large iron and steel and engineering companies in England in the last two years.

(ii) *Iron and Steel Industry.*—

Although there are not many joint stock companies in India at present engaged in the manufacture of iron and steel, I have selected this industry not only because of its importance as one of the key industries of the country but also for its special conditions and the nature of its financial requirements. The working of these companies in India, as in other countries, has shown that the proportion of fixed capital to working capital has to be considerably larger than in the case of industries like cotton or jute. It would be far easier to find capital for a dozen cotton or jute mills than for one iron and steel manufacturing company. The length of time involved in the erection of an iron and steel works calls for some patience on the part of those who subscribe to its capital and the experience hitherto obtained from the working of the Tata Iron and Steel Company is such that another company of the same size would be practically impossible to float in India unless the existing sources for obtaining capital are mobilised by the formation of industrial banks.

The share capital of the Tata Iron and Steel Company is over ten crores of which Rs. 7·75 crores is in preference shares and the balance in ordinary and deferred shares. Besides these, there is a sterling debenture issue of £4 million secured on the mortgage of the fixed assets of the company which stood in the last balance sheet at Rs. 14·5 crores. The debentures which were issued in 1922 are not fully repayable till 1957, though the company has option to redeem them in 1937 at a premium. The long period of the debenture loan is not difficult to understand as all this money has been invested in plant and machinery and the only source from which repayment may be found is by annual appropriations of a part of the annual profits to the debenture sinking fund.

For a company producing every year about Rs. 5 crores worth of finished steel and employing over twenty-five thousand hands, the requirements for working capital are necessarily large. Some years ago when the company was struggling with serious difficulties, the question of obtaining working capital was a daily problem. It was, however, partially solved by Government assistance which took the form of a fixed loan of Rs. 50 lakhs by the Secretary of State for India with whom the company deposited an equivalent amount of its unissued debentures. With the progress of the company this loan was withdrawn. There is a large cash credit of Rs. 1 crore given by the Imperial Bank against the hypothecation of a part of the company's stock-in-trade. In addition to this the company has a substantial cash credit arranged through one of the leading financiers of Bombay on similar security. These facilities are supplemented by fairly large amounts of unsecured loans or one-year deposits which the company has been able to raise on its own promissory-notes or deposit receipts. I must

acknowledge here that enterprising and business-like attitude which has been sympathetically maintained towards this industry by some of our indigenous banks.

The experience of this company reveals what enormous difficulties it had in the past in raising both the fixed and working capital. But for the financial standing and the enormous influence of the managing agents, the company might not have continued its existence till now. However, the cost of raising the necessary capital has been a partial handicap for this company to reach a position where it could make some return on the major portion of its capital. Even the dividend on its preference capital remains unpaid for some years. The company has to find every year Rs. 35 to Rs. 40 lakhs for interest on debentures and other loans. I would also draw the attention of the Committee to the experience of another company—I mean the Indian Iron and Steel Company—which has had to mortgage more than half its annual profits for obtaining a debenture loan on the guarantee of the Bengal Iron Company. That there is a lack of adequate credit facilities for the finance of this industry is widely recognised and this recognition explains why new companies are not started for the manufacture of steel notwithstanding the fact that the cost of producing pig-iron is cheaper in India than anywhere else and that the annual consumption of steel is much larger than the total producing capacity of the existing companies.

(iii) *Hydro-Electric Industry.*—

The distinctive characteristic in the finance of this industry is its requirement of large fixed capital. Fortunately for India, the share capital of the existing companies was raised at a favourable time and even then not without some difficulty. Had it not been for the generous assistance of some of our Native Princes, it would have been impossible to obtain all the necessary capital. In one case particularly, namely, Tata Power Company, the arrears of unpaid calls had at one time accumulated to a total of Rs. 1·37 crores out of a total subscribed capital of Rs. 4·35 crores. To complete its construction, the company had to take a debenture loan from Tata Hydro-Electric Company and as a part of the consideration it had to surrender a certain percentage of its annual profits to that company. The Andhra Valley Power Supply Company also had to undergo the very unfortunate experience of shortage of capital and a time was reached when the company would have been obliged to close down but for the friendly assistance of one of the local banks on the personal guarantee of the managing agents.

In the case of both Andhra Valley and Tata Power, it is noteworthy that fairly large debenture loans were raised in London. Tata Power Company was also in a position to avail itself of the British Trade Facilities Act and raised £1 million at 4½ per cent. on undertaking to buy British machinery from this loan. The total amount raised in London by the two companies amounted to £2,750,000.

The lack of adequate facilities for financing our industries was brought to the fore in 1926 when the Tata Hydro Company raised a debenture loan of Rs. 2 crores principally to lend 115 lakhs to the Tata Power Company Notwithstanding the fact that the debentures were issued on the credit of the parent company which had established a long record of dividend payments, money was obtained on terms which cannot be called otherwise than extortionate. The amount wanted was large and the company could

not afford the risk of making a direct appeal to the public. The debentures were, therefore, underwritten at five per cent. discount carrying interest at the rate of eight per cent. per annum. They were readily taken up by investors and within a few months were quoted at a premium of ten per cent.

If this Committee will care to study the working and financial structure of these companies, it will be impressed with the disproportionate burden of interest charges on debentures and loans on their earnings compared to the operation and establishment charges. It is, therefore, necessary to devise ways and means by which credit facilities may be made available to this industry at a reasonable cost so as to enable these companies to supply power at a cheaper rate to the benefit of other industries and also to encourage other similar projects to be undertaken in other parts of India.

This industry presents various valuable possibilities of developing subsidiary industries but there is evident shortage of capital. One of the main reasons why Tatas recently sold half their share in the agency of these companies to a wealthy American Company has been the possibility of obtaining financial assistance from America for the exploitation of subsidiary projects.

I do not propose to review the financing of other industries. The description given above of three important industries should prove sufficient to justify the demand for industrial banks in this country. Industrial banks that I have in view are conspicuous by their absence in India. We can only speak of one serious experiment in this direction, *viz.*, The Tata Industrial Bank which could not survive long because mainly, to my mind, of ignorance of the fundamental principles underlying the working of such banks. There was ignorance both on the part of management and direction and on the part of shareholders and the general public. A unique opportunity was allowed to be lost and we are still without any industrial bank worth speaking of.

I suggest the establishment of an industrial bank in each of the major provinces in India. The bank should not, however, be started in any province without a thorough preliminary survey of local conditions and needs. That there is considerable scope for tre exploitation of natural resources throughout India has been convincingly shown by the Industrial Commission. But it is also necessary at the same time that private enterprise should be found to take initiative in promoting new industries. I feel, however, that the existence of an industrial bank in a province combined with a well-equipped Department of Commercial and Industrial Intelligence will give heart to enterprising businessmen to undertake new ventures. In an industrially young country like India, with a Government that has hitherto been indifferent and apathetic to the furtherance of the economic interests of the country, and with recent memories of inevitably disparaging losses and failures in the industrial field, there cannot be much hope for progress in this direction unless there is a radical change in the attitude and policy of the Government of India in regard to the development of Indian industries. In the words of the Industrial Commission "A powerful and well-directed stimulus is needed to start the economic development of India along the path of progress. Such a stimulus can only be supplied by an organised system of technical, financial and administrative assistance". The change in policy that is desired here is not one of lip-sympathy but an active and energetic policy of encouragement and

support. I suggest, therefore, that Government should undertake the responsibility of lending financial assistance to industrial banks either in the shape of direct subscription to their capital and bonds or in the form of guaranteeing repayment of capital and interest on bonds issued by them.

Industrial banks that I suggest should be joint stock banks with large authorised capital. They may start by issuing only that part of the authorised capital which may be deemed necessary both as a result of the preliminary survey of local needs and also consistent with the demand for establishing its credit in the market. In any case, whatever be the amount issued, a substantial part of it—I would suggest at least 50 per cent—should be subscribed and paid-up. The reason for suggesting a large authorised capital is obvious as industrial banks to be successful in the course of time must be progressive institutions and must spread their risks over a wide range of industries.

Each of these banks should have the right to issue debentures or bonds to the extent of five times their paid-up capital. Both repayment of capital and interest on these bonds shall be guaranteed by the Government of India. In the event of these banks not being able at any time to raise money on these debentures or bonds, Government shall directly subscribe to them with the right to sell them in the open market at any time but not under par.

The object of industrial banks is to provide capital, both fixed and working, for industrial concerns, the repayment of which cannot be expected within a short time. This explains the necessity for large capital funds at the disposal of these banks. The banks will of course open current accounts and receive short term deposits and do the ordinary commercial banking business, particularly during the early years of their existence. But there cannot be a more fatal error than to plan the structure of industrial banking on the foundation of deposits withdrawable on demand or at short notice. Under prudent, conservative and well-informed management and direction, industrial banks will succeed in extending their activities over a wide field by a judicious turnover of their capital resources.

An industrial bank, to be really successful, must have a very strong and well equipped intelligence department. The function of this department should be to collect and compile relevant data on the industrial possibilities of the province and must be placed under the direction of a man of varied industrial experience who may be in a position to formulate schemes for the development of these possibilities on a business scale and also to analyse and criticise similar propositions placed before the bank for financial assistance and support. It is very seldom that technical knowledge and business acumen are found combined in one man. The results achieved in the laboratory have often failed when put to test in a business factory. The necessity, therefore, of a strong Board of Directors, consisting of businessmen and financiers of long experience, does not need to be emphasised. Government shall have the right of nominating an additional director without the right to vote at Board meetings. It shall be the duty of this director to act as a liaison officer between the bank and Government.

I need not dilate on the actual working methods to be employed by industrial banks. I would, however, suggest that the chances of successful working in places like Bombay and Calcutta would be considerably

furthered if these banks will endeavour to utilise and support some of the local agencies engaged at present in raising industrial capital in the country. As far as I am aware, there are at present no underwriting firms in India as we find, for instance, in London or New York. But a few firms of stock-brokers with large clientele and with banking connections in Bombay and Calcutta possess that requisite knowledge and experience, though not the resources, necessary for underwriting business. I believe that with the assistance of industrial banks, these brokers will be placed in a position to consider underwriting propositions which, in most cases, at present are not found practicable for want of financial backing. I think that with the existence of industrial banks it will also be possible for other joint stock banks to assist industries through participation in new flotations, particularly in well-secured debentures or preference shares.

I suggest that industrial banks in India should follow the well-established German practice of banks insisting on having their own representatives as directors of companies which they have assisted in floating or which they finance. The presence of banks' representatives not only provides first-hand information as to the state of the companies' business but also acts as a brake on imprudent or unbusinesslike management. We must, however, endeavour to benefit by the recent experience of German banks in regard to the failure of *Frank Further Allgemeine Versicherungs*, A. G. This big and well-known insurance company failed only a few days after obtaining fresh credits from banks whose representatives were all at the time on the Board of Directors. This painful experience does not at all disprove the desirability of this practice but only serves to emphasise the importance of having very vigilant and energetic men to watch the interests of banks.

If industrial banks are to succeed in India, I would exhort this Committee to urge, firstly, those who may be responsible for the organisation and management of these banks not to be carried away by over-enthusiasm at the start with anxiety to show great results, and, secondly, the public in general and investing public in particular, not to be impatient of the progress of these banks and not to expect fat dividends in early years. Expert knowledge under cautious business-like direction and patient patriotic support by investors will, in course of time, give us industrial banks whose record of achievements will bring no small credit to this Committee for recommending their establishment on sound and well-proved lines.

I do not favour the establishment of trade banks. I think the advantage of having such banks which mainly arises out of their specialised knowledge of particular trades is outweighed by the inherent risk of rapid loss of public confidence in the event of such trades being involved in difficulties. It must be remembered that banks are dealers in credit—a very intangible and sensitive commodity—and as such would be easily affected by the ups and downs of the trades they are specially concerned with.

I suggest that this Committee should study the possibilities of developing credit insurance in India. In this connection perhaps the experience of the Trade Indemnity Company of London may prove very instructive and helpful. In London I was greatly impressed with the possibilities of this system which enabled banks to finance traders and manufacturers who sold their wares on the instalment-purchase plan. It is credit insurance which encourages some London banks to consider financial propositions emanating from countries like Poland or South American Republics. The

idea is quite simple and practicable inasmuch as it reduces the risk of loss for banks by insurance companies undertaking to share the potential loss on such transactions in consideration of an actuarially fixed premium.

BANKING EDUCATION.

One of the reasons commonly advanced for the tardy development of banking in India is the dearth of properly trained men who could be trusted with the management of departments and branches. Speaking with some personal experience of training students for a banking career as well as of the openings afforded by the existing banking institutions for well-trained men, I submit that this charge is substantially ill-founded, though I am convinced that it will continue to be repeated as long as it remains closely unscrutinised and is not pronounced to be false and unwarranted by an authoritative body like this Committee. Whilst deeply grateful for the opportunities I had had for my banking training with the London office of a well-known American bank, I cannot hold back from the Committee my conviction that when the leading-strings of the majority of the banking institutions in India are pulled by non-Indians, this charge of paucity of well-trained men for banking business is positively unfair. This conviction is based on substantial proofs which being of a confidential nature, I cannot discreetly disclose here but I shall be glad to place them before the Committee if they care to go fully into this matter.

The education for a commercial career has necessarily to be twofold: theoretical and practical. The establishment of commercial colleges in various parts of India during the last fifteen years and more has made possible theoretical training of students for different branches of commerce including banking and exchange and the progressive increase in admissions to these colleges from year to year and the increasing number of students who successfully obtain the University degrees in the prescribed courses fully testify to the availability of young men equipped with theoretical training for commercial vocations in life. Having twice acted as Professor of Advanced Banking in the Sydenham College of Commerce, I am in a position to say that the curriculum prescribed by the Bombay University for the B. Com. degree with banking and currency as a special subject is fairly comprehensive being based mainly on similar courses in the University of London. Students of average intelligence and calibre who successfully emerge from the University examinations go out into the commercial world with a fair knowledge of the theory and system of banking in India and other countries of the world as well as with a keenness and anxiety to seek opportunities for working out in practice the theories they have mastered. It is, of course, an inevitable drawback of commercial education which is not only confined to India that such subjects as banking and exchange have in most cases to be taught by persons who have never been inside a banking department nor possess any business connection which would bring them into close touch with banks. But then, on the other hand, with due deference to our practical bankers, there would be few among them to claim an equal theoretical knowledge on banking matters which is the proud possession of our University lecturers. If men could be found who combine a sound theoretical knowledge with practical experience of banking, a definitely practical bias would

be imparted to students all through their University education. This defect can, however, be remedied if some of our bankers can show the enterprise of volunteering their occasional services for conducting practical classes in banking for advanced students of the subject in our commercial colleges.

After graduation in commercial subjects with banking as a special subject, qualified young men find themselves at the parting of the ways in the absence of any organised facilities for their practical training. It must be admitted that many of these, under the pressure of straitened circumstances, cannot afford to wait for suitable opportunities and have to take whatever jobs are offering, irrespective of the field for the application of their specialised knowledge. Whilst some of these have been lucky in finding employment with banks, the majority have to seek other openings. There is no co-ordination of effort at all between the commercial colleges and the banks. Repeated requests from the heads and staff of such colleges are turned down for want of vacancy. As far as I am aware, no bank in India except the Imperial Bank of India, has any regular arrangement or scheme for training young commercial graduates. The Probationers' Scheme, as I think it is called by the Imperial Bank, is well-conceived for this purpose, but the number of men admissible every year under this scheme is lackadaisically small. In the absence of any detailed information as to the actual number of young men hitherto trained under the scheme and as to their present status and emoluments, it is difficult to pronounce any opinion how far the scheme has proved successful in giving practical effect to a very sound and generous intention on the part of the framers of the scheme. I would exhort the Committee to go thoroughly into the working of this scheme, as for some time past, I have been informed, several applications have been rejected for want of vacancy. Under the existing circumstances, the Imperial Bank is the only institution to which the community can look for substantial support and assistance in this matter. And the reason is obvious. The bank has one hundred branches and several agencies spread all over the country. It is supported by Government, local corporations like municipalities and port trusts, Native States and charitable trusts. It must not also be forgotten that the sole *raison d'etre* for the bank is not to earn large profits and distribute fat dividends to its shareholders. It is a semi-public bank and as such it should be one of its principal functions to provide a widespread banking service for the country by employment of indigenous talent. This cannot, however, be achieved unless the Probationers' Scheme is considerably enlarged and extended and a much larger number of educated young men are taken up for practical training. I may also add that practical training given under this scheme, to be really useful must be of a nature and variety to leave the probationer at the end of his training with a full knowledge of the routine work and general banking practice of the various departments of the office so as to enable him later to take charge of the smaller branches of the bank. The relegation of a probationer, for instance, to the share transfer department for the major period of his training is, I submit, a perversion of the real intention underlying this scheme.

Besides the Probationers' Scheme, the Imperial Bank has a definite scheme for recruitment of the higher staff of the bank. This recruitment takes place in the United Kingdom and candidates who are eligible for service under this scheme must have three years' practical experience of

work in a bank in the United Kingdom. In the case of those holding a University degree only two years' practical experience is required. Selected candidates are given a free first-class passage to India and start on a monthly salary of Rs. 500 with fifteen per cent. housing allowance. With a yearly increment of Rs. 50 these candidates rise in time automatically to positions drawing Rs. 1,200 per mensem. Further promotion then is made conditional upon individual ability and merit shown during past service. Though these higher staff are recruited outside India, qualified Indians are eligible for this service and a few Indians have in very recent years been recruited under this scheme.

I am not aware if the framers of this scheme ever intended or anticipated that eligible Indian candidates would come forth under this scheme of recruitment. As I was amongst the first few Indians—perhaps the first—to apply for this grade of service, the rules under this scheme were closely scrutinised and at last some ingenious brain discovered that I was not eligible for service under this scheme as my practical experience was with the London office of an American bank and not with a British bank. I find, however, that later owing to the interest taken in the matter by some of our public men and the Indian Merchants' Chamber, this rule has been liberally interpreted to include practical experience with any bank in the United Kingdom. I hope the Committee will consider this personal reference in the spirit in which it is made here, since, personally I do not regret my exclusion from this service, though every self-respecting Indian would resent such treatment.

This scheme requires to be modified in one particular respect, if recruitment of Indian candidates of the right stamp is desired to be encouraged. The majority of these candidates, to my knowledge, are graduates of Indian Universities. They go to England with the twin object of studying at the London School of Economics for the B. Com. or B.Sc. (Econ.) degree of the London University with banking, currency and exchange as their special subject. The lectures at this school are so arranged that the full curriculum can be followed by attending evening lectures from six to nine. This arrangement leaves the whole day free for practical work. And the rub comes in here. The facilities for practical training in banks in London for Indians are only a matter of luck with a few. Considering the nature and scope of business transacted at the London office of the Imperial Bank, it is hardly useful for a thorough training. The big English banks are very reluctant, if not hostile, to taking Indian apprentices in their offices. Foreign banks, therefore, afford the only chance for such training, but it takes a lot of time and influence before one succeeds in getting an entrance. It is on account of these circumstances that I would urge this Committee to persuade the Imperial Bank to raise the age limit for candidates applying under this scheme from 25 to 27 years. I do not wish to comment on the quality of Indian and other recruits under the scheme with a view to avoid invidious racial distinctions, but I am confident that if this Committee is prepared to look closely into the comparative qualifications of the bank's servants recruited under this scheme, it will have little doubt as to the superior qualifications of the Indian candidates.

The exchange banks in India recruit all their superior staff in the United Kingdom, the only exception being made in the appointment of head cashier or shroff. This latter exception is unavoidable as the

European officers of these banks are in most cases birds of passage and cannot be expected to be well acquainted with local parties and their financial standing. As all these banks were incorporated in England and have been owned mainly by non-Indian shareholders, it is only natural that they should provide field of employment for men of their own nationality. The other non-Indian banks, the foreign agencies, also follow a similar policy. Elsewhere in this memorandum, I have suggested directions in which business of these banks may be regulated in India. It would be but fair to ask of all these banks that they provide suitable facilities for training Indians, and the Committee, I think, would be fully justified in making this a condition precedent to the issue of licenses to such banks. The Central Bank of India and the Punjab National Bank appear to be the only important Indian joint-stock banks which are entirely staffed and managed by Indians. I do not think, however, there is any well-defined system for recruiting their staff or any scheme for giving practical training to commercial graduates. This perhaps explains how some of our banks have become the dumping ground for law graduates and floating solicitors who cannot be absorbed elsewhere. This is a regrettable feature inasmuch as these men lack a practical business outlook and carry with them into the business world the contagion of their litigious spirit.

The value of a sound banking education, both theoretical and practical, does not appear to be fully appreciated in this country in general. Even some of our practical bankers are sceptical of its value, particularly on the theoretical side, and are apt to forget that given equal opportunities men with sound theoretical education would prove their worth. Though many of those who are in charge at present of the management of the big banks in London have gradually risen from the low rung of the ladder, they do not fail to recognise the importance and value of theoretical education. Bank clerks in London are encouraged to study the principles, practice and systems of banking in different parts of the world and are given special bonus or promotion on their passing examinations like Institute of Bankers or Gilbart's. Some of the banks there also maintain a small regular department for research and statistical work, the useful results of which we frequently find in the illuminating annual speeches of chairmen of such banks. This Committee would, therefore, do a great service by impressing upon our bankers the value of creating and keeping alive among their staff an interest in the study of their subject. On the practical side also, our big Indian banks would benefit considerably by sending some of their picked men to London and to arrange for their practical training with their London agents. The attitude of narrow-minded self-sufficiency must be exposed and deprecated and if Indian banking organisation is to be broad-based on modern lines, the vicious idea of conditioning the stability of banks on the supposed prestige and indispensability of individuals must be eradicated root and branch.

Indigenous bankers have been plying their trade according to their own ideas for such a long time that it will be almost a superhuman task to persuade them to adapt themselves to modern conditions. Considering the nature and extent of their business and their age-long experience of local conditions and parties handed down from father to son, it may even appear doubtful if modern methods of banking business would appeal

to them as more efficient in the sense of actual results of profits. However crude their methods may appear to us, it is naturally to their interest to stick to these methods which are at once incomparably economical and serviceable in maintaining close secrecy about their business. Unless, therefore, they are compelled by their own clientele as a result of the wider spread of education in the country, or by a country-wide extension of modern branch banking, it is difficult to conceive of circumstances which would impress them with the need or value of banking education. I am of opinion that mere enactment of laws compelling indigenous bankers to keep regular sets of books and to pass receipts for payments received, etc., will not yield great practical results if we remember the type of business and the class of people indigenous bankers are concerned with. Education is the greatest political and economic need of India and so many of the reforms we all ardently wish to bring about must continue to be mere dreams as long as ninety per cent. of the country's people grope in the darkness of illiteracy. The solution of several of our very acute problems only waits on the introduction of compulsory education in the country which when effected, will transform the whole face of things and make indigenous bankers, among others, how greatly they can further the economic well-being of the country by allowing the old order to change, giving place to new.

The Indian Institute of Bankers is only a very recent creation and the experience of its working has been so small that it is too early to think of amendments in its constitution. It is organised substantially on the basis of the well-known London Institute of Bankers. The value of such bodies depends largely on the active co-operation of its members and a clear understanding on the part of the banks that men who have passed the Institute's examinations will have due recognition from them. If developed on sound and well tried lines of the London Institute, this body promises in future to be the additional vehicle of banking education as well as the spokesman of authoritative banking opinion in the country.

REGULATION OF BANKING.

The history of joint stock banking in India, though none too long, is abundantly replete with varied experiences suggesting numerous defects in the organisation and management of banks as well as diverse difficulties which militate against the rapid development of banking in the country. In the past banks have failed in India, as in other countries, on account of fraud and dishonesty, incompetent management, temporary difficulties which could be tided over with timely assistance from other banks, national calamities like the earthquake or floods, etc. These failures have aggravated the difficulties by breaking the confidence of a preponderately illiterate people in the stability of joint stock banks in India. Of the persistent difficulties which hamper a rapid growth of banking may be mentioned (*a*) illiteracy; (*b*) size of the country making enormous distances between important towns and the interior; (*c*) jealousy and competition of exchange banks and other foreign agencies; (*d*) the privileged position of the Imperial Bank; (*e*) absence of a powerful Central Bank; (*f*) unsettled and vacillating currency and financial policy of Government; and (*g*) total apathy and indifference on the part of Government.

I need not dilate on (*a*) and (*b*) as it is a patent fact that India has the size of Europe without Russia and that about ninety-five per cent. of its inhabitants cannot read or write their own names. The enormous size of the country naturally entails diversity of social and economic conditions, the worst being the countless number of languages and dialects current in different parts of the country.

(*c*) The exchange banks which were all incorporated in London have been doing business in India for a good many years and have by this time built up a very strong position for themselves in the country. With some other foreign banks they enjoy a practical monopoly of financing the foreign trade of India with the assistance of the London discount market. Whilst they look with jealousy and disfavour on any new comer into their field of activity, they have gradually and successfully invaded the territory of local finance. In this they have been offering very keen competition to the Indian banks inasmuch as with the established credit of the past and with the powerful assistance of their head offices, they have been able to attract large deposits which would otherwise have gone to the Indian banks. With better credit they are in a position to obtain local funds at cheaper rates than their Indian competitors and can consequently advance money on better terms than the latter. The relations between exchange banks and Indian banks can best be described as neither particularly friendly nor openly inimical. It has, moreover, to be added that the attitude sometimes taken up by certain exchange and foreign banks in their day-to-day dealings with Indian banks is hardly conducive of that atmosphere of healthy rivalry among competing business groups which one experiences in an international market like London.

(*d*) The Imperial Bank occupies a safely entrenched position within the framework of the Imperial Bank of India Act, 1920. I think one may say without fear of contradiction that no bank in India loves the Imperial Bank for its position as a State-aided competitor. A detailed investigation into the working of the Imperial Bank *vis-a-vis* other banks and particularly Indian joint stock banks since 1920 will, I am confident, convince this Committee that it is an unfair contest in which the opponents are not well matched. There can only be one result of this fight between Goliath and stripling Peter and that result is too patent to need mention. I am prepared to admit that the Imperial Bank has rendered in some respects great service to the trade and industry of this country. But one often wonders if the real intention underlying the establishment of this bank has been fulfilled in the bank having built up a large commercial clientele with the aid of crores of interest-free public funds. The inauguration of the Imperial Bank was hailed by many as the first and important step towards the development of a strong Central or State Bank in India; but the realisation of such hopes is rendered impossible by the bank having developed vast commercial and trading connections through some loop-holes in the Act of 1920. This development has dealt a severe blow to other banks which cannot reasonably be expected to compete with a privileged competitor like the Imperial Bank.

(*e*) As the Imperial Bank is in no real sense a Central Bank, Indian joint stock banks in their present state of development have no certain source of support and assistance in times of temporary difficulties. The presence of a powerful Central Bank would not only impart confidence

into the stability of the existing banks but would also give heart to enterprising capitalists to open new banks. More of this later when we come to discuss the question of a Central Bank for India.

(*f*) The hoarding habit has definitely prevented a rapid development of banking and for this we must partially thank the currency laws of the country, which do not make gold readily available in exchange for the local currency. The shifting and unsettled financial policy of Government has not only inflicted heavy and unforeseen losses on the existing banks but has also discouraged new banking enterprise as a result of their extensive interference with the money markets of India. When time comes to write the financial history of India during the last ten years, the impartial and dispassionate historian will, I feel confident, wonder as to how there was such small mortality amongst Indian banks during this period. I may say this, and without any fear of contradiction, that no banker in India will deny that his view of money conditions for any given period has not been upset by the puzzling moves of Government on the chess-board of public finance. It cannot be questioned that Government in all civilised countries is necessarily a big operator in the money market. But in the West, the Government operations follow certain recognised and easily understandable practices which serve as a *vade mecum* to the other constituents of the market. For instance, the information given in London every week by Government as regards their ways and means position, fluctuations in the floating debt, etc., indicates the probable time and dimensions of Government operations in the money market. I would exhort this Committee to persuade Government to publish similar information in India immediately. At present in the absence of such information various operations of Government come often as a surprise to the market and to that extent rob our money market of a part of its stability and consistency.

(*g*) Whilst it is scarcely commendable to condemn Government for the various deficiencies of India, it is nevertheless true that the apathy and indifference of Government in the matter of the economic advancement of the country are in no small measure responsible for our backward condition in the world of banking. Educated in the school of political philosophy taught by Bentham, our rulers have been remorselessly applying their policy of *laissez faire* to India, though conditions here so materially vary from those which made Bentham enunciate his doctrine. As in other matters, there must be a radical change in Government attitude towards the development of banking throughout the country which responsibility no benevolent Government can in present circumstances evade with impunity. I have suggested in other places how Government can assist the growth of banking in India.

Besides these difficulties, varied experiences have gathered by now from the working and management of banks in India which suggest directions in which the regulation of banking may be devised with hopes of practical success. Considering the special circumstances of India, we cannot with advantage follow the experience of England in this matter where apart from the Bank Charter Act of 1844 there is no legislation enacted with the object of regulating banking business, except perhaps that no two banks can amalgamate without the previous sanction of the Treasury. But then what is lacking in legislation is more than amply made good by the growth

of conventions and practices based on well-tried experience of some generations. India is yet in its infancy in banking matters and with its peculiar conditions requires the prescription and enforcement of certain standards of management as well as protection against unfair competition. Whilst it will not be disputed that the joint stock banks provide very efficient and useful service to the trading and commercial community of India, there are the co-operative credit banks and countless indigenous bankers who at present form a very important part of the banking structure of the country. The Indian Companies Act, 1913, under which our joint stock banks are incorporated, is obviously, therefore, not comprehensive enough for the purpose. The reason why I advocate specific legislation for banks is both because of the important position banks occupy in the economic organisation of the country and for the special protection of the community on whose confidence the stability of the banking structure in any country rests. The *raison d'etre* for specific legislation for banks will also be found in the frank recognition by Government of its responsibility not only for giving its moral support to the growth and development of banks but for the prescription and enforcement of certain well-tried standards of management.

A special Act may, therefore, be passed entitled " The Banks Act ", dealing not only with joint stock banks incorporated in India, but also with private bankers and banking firms, exchange banks and other foreign agencies, co-operative credit banks and land mortgage banks.

Meaning of "Bank" or "Banker".—It is necessary to give as precise and comprehensive a definition as possible. I would suggest that the terms "bank" or "banker" may be defined to mean any individual, private firm, joint stock company formed under the Indian Companies Act or under similar acts or charters in other countries, a society organised under the Co-operative Credit Act of 1912, that received deposits either fixed or payable on demand and is engaged in the business of making loans to trade, commerce, industry or agriculture. This definition is suggested to include private indigenous bankers as well as some wealthy well-established banking firms and to exclude what are ordinarily known as "money lenders". The difficulty of including the latter is obvious in that "money-lender" is a very vague term and may include within its connotation persons on whom it would be impossible to enforce this law.

Requirement of a License.—Excepting the joint stock banks incorporated in India and the co-operative credit societies, all *persons* (which term shall include firms and banks) coming within the purview of this Act shall be required to obtain a license from the Finance Department of Provincial Governments for carrying on their business in the place or places which must be distinctly specified in the application for such license. In the case of private firms, names and addresses of all partners and responsible officials must be stated in the application for license and also whether the partners are engaged in any other business and of what character. In the case of non-Indian banks their latest balance sheet along with the names and addresses of their responsible officials should be included in their application. A nominal fee of Rs. 1,000 should be charged on the grant of a license in the case of such banks, whilst in the case of private firms this fee may be fixed at Rs. 100.

Fortnightly Statements.—Excepting the private firms and co-operative credit banks, all banks under this Act shall be required to publish every fortnight in any two local papers a statement. showing the following items:—

Capital	Cash at bank.
Reserve	Money at Call.
Deposits current	Balances with other banks.
Fixed	Loans and Advances.
Savings	Bills discounted.
Loans from other banks ..	Investments.
Acceptances, guarantee, etc.	

A copy of this statement shall also be filed with the Registrar of Banks—an office that will be created in every Province under this Act. For non-Indian banks, the items mentioned should refer only to their business in India. The statement shall be certified by responsible officials like the manager, accountant and chief cashier.

All persons and banks under the Act shall adopt the working year as from 1st January to 31st December. This uniform practice will make banking statistics not only intelligible for comparative purposes, but may well prove serviceable in bringing to the fore certain tendencies in our banking development.

Minimum Subscription and Paid-up Capital.—Section 101 of the Indian Companies Act in so far as it applies to joint stock banks shall be amended to the effect that the minimum subscription for proceeding with allotment of shares should be fifty per cent. of the issued capital. Further, within one year of the commencement of business, the paid-up capital must be at least fifty per cent. of the capital subscribed. The history of joint stock banks in India reflects the weakness of banks on account of their very small, in some cases incredibly small, paid-up capital in proportion to their authorised or issued capital. The confidence of depositors, it does not seem to have been properly realised, in the stability of a bank is strengthened by the amount of its paid-up capital and reserves. In the West, this has been very widely recognised and the growth of business in several cases is accompanied by further increases of capital. If banking business in India is not to be a by-word and a reproach, this easy trick of defrauding ignorant people by formation of banks with astounding figures of authorised capital and with a negligible paid-up capital must be made unworkable by the amendment suggested above.

Loans to directors.—One of the very important lessons taught by the past history of banks in India is the danger of intimate relationship between banks and companies in which banks' directors are interested. It is noteworthy that the Hindustan Bank which was the first joint stock bank established in India in 1770 failed in 1832 because of the failure of the firm of Alexander & Co. who were closely associated with the bank. That the Alliance Bank of Simla failed owing to the desparately insolvent position of Boulton Bros. is too fresh a sore to be reopened now. It is also a great misfortune that bank directors have been found to be too innocent of banking practice or even of ordinary business prudence to detect or counter the evil practices of other designing directors or managers. A very honest and well-known citizen of Bombay who was a director of a

bank admitted in a court of law after the failure of his bank that he did not know what a bill of exchange meant. How such highly respected men can be used as tools by dishonest managers or co-directors for defrauding the public is very amply confirmed by our past experience. The law must, therefore, intervene to protect the public. Whilst it is true that under Form F as given in the Third Schedule to the Indian Companies Act, 1913, every joint stock bank must show separately in its balance sheet the amount of loans given to companies in which the bank's directors are interested, this can be easily got over by arranging temporary repayment on the date of the balance sheet. I would suggest, therefore, that the law should definitely prohibit grant of loans to any company or companies in which a bank's directors are directly interested for amounts exceeding twenty-five per cent. of the paid-up capital of the bank. To prevent hoodwinking on the date of the balance-sheet, I would further suggest that the directors shall be required to certify that at no time during the period for which the balance sheet is drawn up was the law infringed in this respect. The auditors' certificate shall also include a statement to this effect.

VALUATION OF ASSETS.

The principal assets of a bank may be broadly classified under two heads: (1) various kinds of negotiable securities; (2) land, buildings, machinery and plant and different commodities hypothecated to the bank.

(1) It is not a matter of great difficulty to arrive at a proper and definite valuation of negotiable securities which have a current market quotation. Most of such securities held by a bank as its investment are gilt-edged and sound well-established banks always made it a rule to value them in their books either at cost or market rate *whichever is lower.* A prudent banker will not inflate the book value of his holdings because of the adventitious rise in market prices; he would rather strengthen his position by allowing such secret reserve to increase in size. But, on the other hand, an opportunist banker will swallow these unrealised profits by inflating his book values. Whilst such practice is unsound and imprudent, it carries with it the danger of misleading the shareholders and creditors of the bank in that such profits are not earned and may give a false cover to the declining earnings of the bank. The dividends paid out of such profits are paid only from reserves or capital. I would suggest, therefore, that the law should require banks to state specifically in their balance sheets that the securities are shown *at cost or market rate whichever is lower.*

(2) One of the weaknesses of some banks in India is the lock-up of considerable part of their funds in land and buildings, some of which were purchased by banks for their own use and some had to be taken up in case of default by customers. I recognise the difficulties of banks in India in this respect as they have to finance a good many of their customers who have nothing but landed property to give as security for loans. This is not a negligible part of the business of banks in India, particularly in localities where there is no industry of any importance. Such financing in the West is usually done through building societies or urban land mortgage banks. In the absence of such institutions, the resources of some of our big banks cannot be largely made available for financing trade

and industry in the country. I have suggested the formation of agricultural land mortgage banks to the Bombay Provincial Banking Enquiry Committee. I do not see why similar banks should not be established in urban areas.

When one hears of several buildings which have to be taken up by banks owing to their customers' defaults, one really starts wondering as to their valuation in banks' books. It is the accumulation of assets of this character which partly explains the failure of some banks. The outside public only comes to know of this state of affairs when banks have failed and not before. I cannot think of a more effective way of protecting the public from such a danger than by making auditors of banks responsible for verifying the valuation of these assets.

Auditors' Certificate.—The farcical and nebulous nature of the certificate given at present by the auditors needs to be amplified and made more definite as to its meaning and implications. The auditors should be required by law to certify that they have been satisfied that the assets have been truly and properly valued.

Some banks have adopted the vicious system of giving their managers or managing directors a certain percentage of annual net profits as a part of their remuneration. Whilst the apparent intention is to provide an incentive to earning larger profits, there is the risk of accounts being cooked to show higher profits than actually earned with a view to score increased commission. It might also well encourage inroads into the speculative field of business with potential risks of serious losses for the bank. The law must, therefore, prohibit this system of remuneration which has also the undesirable tendency of creating a vested interest in the management of banks.

Annual Statements.—At the end of every working year, all joint stock banks incorporated in India shall be required to publish and circulate among their shareholders their balance sheet and a statement of profit and loss account. The balance sheet shall be in accordance with Form F given in Schedule Three of the Indian Companies Act, 1913 with such modifications as suggested above. Where items "Bad and Doubtful Debts" and "Provision for Bad and Doubtful Debts" are both omitted, the directors must be required to append a note that full provision for such debts has been made. The auditors' certificate must also state that they have been satisfied as to such provision.

Statement of Profit and Loss Account.—The Indian Companies Act, 1913, does not make it obligatory on companies to publish every year a statement of profit and loss account. The new Companies Act, 1928, in England specifies this obligation under Sec. 39. It is possible that in the course of time the Indian Companies Act will be amended in this respect to the same effect. We are, therefore, concerned with banking companies only and must include it in the Indian Banks Act, though it may not be deemed advisable for other companies. I would suggest the following form:

INCOME.

By Amount brought forward from last Balance sheet ..

By Interest, Exchange, Commission, Transfer fees and Discount ..

By Profit on Investments in Gilt-edged and other securities ..

Expenditure.

	Rs.
To Interest on Fixed Deposits	
To Interest on Current Account	
To Interest on Savings Bank Deposits	
To Establishment Charges at Head Office..	
To Establishment Charges at branches	
To Provident Fund Contributions	
To Directors and Auditors Fees	
To Rent, Taxes, Insurance, Lighting, etc..	
To Law charges	
To Depreciation and Repairs to Bank Property	
To Postage, telegrams and stamps	
To Stationery, Printing and Advertising	
To Balance	

On the side of income, I have placed the item "Profit on Investments in Gilt-edged and other securities". I consider it both unsound in theory and dangerous in practice for a bank to swell its profits by writing up some of its assets, particularly those assets the market for which is subject to speculative fluctuations. If such securities are sold at a profit, there can of course be no valid objection to adding that to other income of the bank; but as long as such profit is not actually realised, the mere writing up gives only a speculative valuation of the assets. If the Committee decide to include this item as suggested above, I feel confident that it will result in the eradication of one of the evil banking practices in this country.

Those banks which are not incorporated in India should also be required by law to publish and file at the end of every year a balance sheet with the Registrar of Banks. There are certain obvious difficulties which make it impossible to insist on the same form of balance sheet as adopted in the case of Indian banks. It should moreover be sufficient for our purpose to have the following information:

Current Accounts	Cash.
Fixed Deposits	Money at call.
Savings Bank Deposit	Balance with other banks.
Acceptances, endorsements guarantees.	Bills discounted (1) foreign (2) Inland.
	Loans and Advances— (1) Indian joint stock Companies and India firm and individuals. (2) others.
	Investments— (1) Government of India, Provincial Government and Local Corporation loans. (2) others.

It would be compiling very interesting and useful statistics, if the Committee can recommend imposing the obligation on exchange banks and other foreign agencies to file a statement showing the total amount of (*a*) foreign bills discounted (*b*) foreign bills received for collection during the year and the places on which they were drawn.

This statement should be filed for every branch separately. It need not cause any inconvenience or great labour as most of the offices are in important towns and do fairly large business.

Private bankers, whether individuals or firms, should also be required to file a statement every year showing:—

Capital ..	.. Cash with Banks.
Deposits { Demand ..	.. Money at Call.
Deposits { Fixed ..	.. Bills discounted.
Acceptances, endorsements guarantees.	Loans and Advances.
Loans from other banks	.. Investments in shares and gilt-edged securities.

In each case, the statement should be filed with the Registrar of Banks not later than the 31st January in each year. A penalty of Rs. 50 for each day of delay should be imposed to ensure prompt and regular compliance.

Examiners for Bank Accounts.

I do not think it is either admissible or necessary to have examiners for audit and examination of bank accounts. We have in India a fair number of well-trained accountants and auditors who have been doing very useful work in this direction. The need for the appointment of outside examiners is possibly suggested by past banking failures and if we dive deep into the real causes of such failures we cannot but be impressed with the laxity of law in several respects. That some auditors were dishonest is beyond any doubt, but if in the light of past experience we impose certain legal obligations on auditors as suggested by me, there should be no necessity of having outside examiners. In this connection, I would again exhort this Committee to draft, with the assistance of competent lawyers, a certificate by auditors which should be appended to every balance sheet and statement of profit and loss account. The certificate given at present is very largely vague and non-committal. The auditors for instance must be made responsible for certifying that the assets have been properly valued.

I am of opinion that we have at present auditors of proved integrity and experience and there is no reason why we should not continue to have such men in future. Instead of having outside examiners, I would prefer studying the possibility of applying Canadian practice to Indian conditions. In Canada, banks can only appoint auditors from among the list of auditors selected and approved by the Canadian Bankers' Association. The difficulty in India would be to find a suitable body that can be entrusted with such work. I would rather not have Government do this as there is the risk of political considerations influencing such selection.

I do not think rates and taxes paid by banking companies at present are in any way burdensome or hamper the development of banking in India. We would all wish abolition of super-tax and reduction of income-tax which would certainly benefit every trade and industry, but there is hardly any justification for such a hope in the present state of public finances.

Non-Indian Banks.—India is perhaps one of the few countries which have kept open their doors to any foreign company to do banking business without any let or hindrance. In Canada, "a majority of the directors of every bank shall be natural born or naturalised subjects of His Majesty and domiciled in Canada ". Excepting the Barclays' Bank which recently started a new and separate banking entity in Canada, there are no British banks in Canada which have been incorporated outside Canada. Students of banking history know how vigorously the Austrialians more than once opposed attempts at opening an office in Australia by one of our exchange banks. We also know the experience of one of the "Big Five" which had to close its office in Spain owing to strict regulation of foreign banks in that country. As far as I am aware, no British bank has yet opened an office in New York inspite of the huge trading connection between England and the U. S. A. Even in England, the centre of cosmopolitan banking, bills endorsed by foreign banks are not eligible for discount at the Bank of England.

I recognise the value and importance of exchange banks in the banking organisation of India. With the assistance of the London discount market these banks have been rendering great service to India in the matter of financing her foreign trade. But these banks are not here for an eleemosynary object. They are missionaries or canvassers for the trade and industry of their country. They command extensive patronage and naturally support other branches of British commerce, like shipping and insurance. With wonderful opportunities for profit-making that fall to the lot of a close monopoly which these banks have been enjoying for many years, they have naturally succeeded in building up a fortified position for themselves and can now attract deposits in India at cheaper rates than Indian banks. Likewise, most of the other foreign banks in India. I think time has now arrived when these banks should be allowed to work only under a license to be issued as suggested above. Further, they should be required to deposit with the provincial Government Government of India or local Government securities of the market value of Rs. 5 lacs in respect of every office in the province. They should also be required to pay to the provincial Government a special tax of one-half per cent. on all fixed deposits received in India.

The license which is proposed to be issued to non-Indian banks should specify that in the event of failure or liquidation of these banks, the assets of local offices should be ear-marked for the satisfaction of local creditors and this prior charge on the assets of the local bank should not be deemed to defeat their claim on the general assets of the bank at all other places. in case local assets are not found sufficient to meet the claims in full.

Savings Deposits.—Besides current and fixed deposits, banks are receiving at present savings bank deposits to encourage which a higher rate of interest is allowed. In my opinion, what is wanted to encourage investment of savings in the form of deposits with banks is not any special legislative measure for the protection of such deposits as distinct from others, but the use of vernaculars, simplification of rules and expeditious handling of business. Banks must open small offices in industrial areas and keep them open till at least one hour after the closing of factories and mills. I have also suggested to the Bombay Committee that banks may employ trusted itinerant clerks to collect deposits at various mills. It is a pity that in an important business centre like the Crawford Market

in Bombay, there is not a single banking office. The recent institution of night banking service by some London banks must be studied for adoption here.

Protection for Banks.—Some of our Indian banks have unfortunately been the victim of unforeseen harassment at the hands of some of their shareholders. Criticism, frank, moderate and constructive, always helps; but remorseless chasing of the management of a bank with captious criticism mainly engendered by personal spite weakens the credit of the bank by creating all sorts of suspicion as to its stability. No sensible person encourages such criticism, but very few can put its correct value upon it. With lack of education amongst the predominant majority of the country's population and with inexplicable apathy on the part of the educated to go deep into the merits of such criticism, the inevitable result is that the man who makes the loudest noise is supposed to be in the right, for the time being at any rate. I very much doubt, however, if the law can effectively stop such criticism, without interfering with legitimate and helpful criticism. We have had bitter experience of incompetent and dishonest management in the past, leading to failures, heavy losses to the public and loss of confidence in banks. We must also recognise that, in spite of the frivolous nature of law suits against banks, such prosecutions have brought to light certain directions in which greater vigilance on the part of shareholders is shown to be imperative. With all my enthusiasm for the protection of Indian banks, I strongly feel that in the long run standards of banking management will be lowered, and incompetency will be at a premium, if criticism is legally barred against the management of banks.

There is one direction, however, in which banks may be protected by special legislation. Sometimes, a bank's credit is sought to be damaged by a bear raid on its shares on the stock exchange. This can be effectively checked by requiring in law that every seller of bank shares shall give the actual number of shares at the time he sells them.

BANKING STATISTICS.

I am sure, the Committee will recognise the value of detailed information as to the working of our banks. One obvious difficulty for improving upon the existing organisation and working of banks is the paucity of reliable statistics, and it is with a view to ensure in future the regular supply of authentic figures that I suggest requirement of detailed information. The compilation of such statistics will not only, assist us in understanding and elucidating our banking problems better than at present, but will also throw some new light on other allied social and economic questions.

The officer responsible for such compilation should be the Registrar of Banks in each province. It shall be his duty to maintain regular records of statements required to be filled by all banks under this Act, and such records shall be made available for examination by any member of the public at a nominal fee. The Registrar shall issue every fortnight in a convenient and intelligible form a summary of statements filed by banks. For the purpose of compiling an annual report, the Registrar shall have the power to demand from banks such other information as he may deem necessary so as to present a complete picture of the working and

organisation of banks in India. I would suggest that such information should include the following facts:—

(a) Number of shareholders; (b) number of current accounts and savings bank accounts and the increase or decrease compared to the preceding year; (c) number of cheques drawn as compared to the preceding year; (d) average amount of advances made to individual borrowers, and, if possible, the distribution of loans among various industries and trades; (e) total number of staff employed.

These annual reports must be published within three months of the filing of statements by banks. The value of any statistics is enhanced by their being kept up to date. This does not appear, however, to have been realised at present as "Statistics Relating to Banks in India" published at present is at least three years old. A little more expenditure of energy and money is sure to be repaid in the enlightenment which it will spread on the subject.

Foreign Trade and Indian Banks.—At present there is hardly any Indian bank which undertakes the financing of the foreign trade of the country, which, as pointed out above, is a practical monopoly of the exchange banks. The difficulties are obvious, but not in any sense insurmountable. As a result of established practice, most of our foreign trade is settled through London. A large bulk of our foreign trade is also controlled by non-Indian houses who naturally patronise banks of their own nationality. But it is an unmistakable tendency of recent years that some of this trade is passing into Indian hands. In the absence, however, of facilities which Indian banks cannot provide, all such business has to go to foreign banks. The exchange banks occupy the privileged position of having their head offices in London, and through the latter enjoy the support and services of that wonderful organisation—the London Discount Market. Indian banks, with the solitary exception of the Imperial Bank, have no direct representation in London, and are, therefore, denied the same benefits which accrue to their competitors. There can be little hope for Indian banks to secure deposits in London. I think I may say that the experience of Indian banks is that they cannot obtain accommodation in London at fair rates of interest even against gilt-edged securities. It is not possible for Indian banks under such circumstances to undertake foreign bill business on any decent scale particularly in the teeth of keen competition offered by exchange banks who are past masters in this branch of business.

I am sure, however, that this Committee will not be satisfied to leave this state of affairs untouched. It is in this direction that, in my opinion, Government should be exhorted to "do their bit". The Secretary of State for India has at his disposal in London the sterling portion of the Paper Currency Reserve, the Gold Standard Reserve, the "Home Charges" and the proceeds of loans raised in London. Even if we totally eliminate the last two items, there are huge funds, a part of which the Secretary of State is known to employ by lending to approved borrowers. This money is the sole property of India, and it is only fair that in the capacity of India's trustee, the Secretary of State must employ it for the greatest benefit of India. I suggest, therefore, that Indian banks with a certain minimum paid-up capital should be entitled to borrow in London from the Secretary of State upto certain limits—these limits to vary with the capacity and strength of each bank—against deposit of gilt-edged securities either in

London or India with the usual margin of five per cent. at one per cent. under the Bank of England rate. The acceptance by Government of this proposal will enable well-established Indian banks to open small branches in London with a view to develop foreign bill business. Some of our banks have already branches established at various centres in India where they can command direct connection with exporters and importers. There are also Indian trading houses that would be too willing to patronise indigenous banks offering this service. Apart from the successful opening of a new avenue for Indian banks, the direct representation of Indian banks in London might well lead to increased trade between England and India and might thus bring mutual advantage and greater prosperity to both countries.

General Banking Organisation and Money Market.

Beyond the suggestions made by me under the heading of "Regulation of Banking", I do not favour the idea of comprehensive legislation or administrative measures of Government for remedying the defects in the present organisation and working of banks in India. But I firmly believe that the field for improvement and progress through co-operation amongst banks themselves is not only vast, but also remains practically untouched hitherto. (1) We have the Imperial Bank of India which has been upto now run with the idea that it should keep itself as far as possible aloof from other banks. I am told by several banking friends that perhaps in order to be scrupulously true to this idea or policy, the high officials of the bank even avoid going to social clubs. This attitude of avoiding other bankers as pariahs or untouchables must not and cannot be attributed to any high-browed arrogance on the part of these officials who are, to my knowledge, mirrors of courtesy and urbanity. But, all the same, there appears to be that studied policy of keeping other bankers at an arm's length. (2) Next in importance are the exchange banks. These have an Association of their own under the leadership of the Chartered Bank of India, Australia and China. Practically all the non-Indian banks dealing in exchange are members of this Association. The object of this Association is to safeguard the rights and interests of its members and to maintain a certain standard of conduct in the actual day-to-day working in accordance with the rules of the Association. Indian banks are not admitted as members of this Association. This emphasis on the racial characteristic of the Association is most unfortunate and is not only resented but looked upon with suspicion by Indian banks. That this Association is distinctively non-Indian in its outlook is further evidenced by its definite policy to support and patronise the European Exchange Brokers Association. I have already described the relationship between this group and Indian banks as not particularly friendly nor openly inimical. The actual relations at any given time between an exchange bank and Indian banks depend to a great extent on the personality and outlook of the men in charge. But it may be said that as a matter of policy the head offices of exchange banks do not appear to be very keen on allowing their Indian offices to get together with Indian banks. (3) Then come the Indian banks. They are Indian in the sense of being incorporated in India with predominantly Indian capital. Only a very few of the big Indian banks are managed by Indians, the rest being still under European management. I regret to have to say that there is not much love lost between these two divisions. It is possible that one may even detect symptoms of active hostility in some cases. In recent years, except on two or three occasions, I do not think they

ever came together to discuss matters of common interest. It appears that they could not reach agreement even on the simple question of banking hours.

I have endeavoured to put these facts in as fair and dispassionate a manner as possible. That there should be rivalry and competition between banks is only human and may even be welcomed, provided it is healthy and conducive to more efficient service for the community. Rivalry inspired by racial distinctions must be deprecated and, if necessary, countered by special legislation. I feel, however, that if non-Indian banks appreciate the freedom of action and security they have enjoyed hitherto in a country which is not their own and compare the treatment they have received in India with the experience of non-indigenous banks in other countries, they would be actuated by a spirit of friendliness towards the slowly rising banking institutions in India. I think India is grateful to these banks for financing her foreign trade, but I may sound a friendly warning that a considerable section of Indian opinion feels that their services have not been an unmixed blessing if directly or indirectly they have hampered the growth of Indian banks. To be fair, I must point out that the mistrust of Indian banks by exchange banks may partly be due to the banking failures in the past as also to ceaseless rumours about the position and working of Indian banks, *e.g.*, resignation of directors and differences of opinion between shareholders and management leading to long drawn litigation. Notwithstanding this, there is no justification for the petty-minded and unreasonable attitude sometimes adopted by some exchange banks towards Indian banks.

With the Indian Institute of Bankers now in existence, I think there is a ready-made agency available for bringing the different groups of banks together and of fostering and developing a spirit of common professional brotherhood. It is the experience of many businessmen that difficult business problems are often more easily solved at a luncheon table than at the office desk. I suggest, therefore, that the Institute should organise an annual programme of functions at which bankers may have heart-to-heart talks and may thus understand each other's position better than by scrutinising balance sheets or lending ready ears to bazaar gossips. The Imperial Bank must of course play an important part in these activities and must discard its official isolation. Some of the Indian banks are also fortunate in having men of great social influence and prestige as chairmen and directors, and I think it is a part of their duty to develop friendly relations with other bankers through social functions.

Clearing House Committee.—In important places like Bombay and Calcutta, where most of the banks are members of the Clearing House, I suggest the formation of a Committee of the Clearing House Banks on the lines adopted in London. There should be periodical meetings of this Committee where matters of common interest may be discussed. In London they have also a "Treasury Committee"—which had its origin during the War—selected from among the members of the Clearing Bankers which is the official channel of communication between the bankers and the Chancellor. If Government have no intention of creating a Central Bank in India in the near future, I suggest that the need for such a Committee cannot be disputed in India where the Finance Member is an operator of much greater importance in the money markets of India than the Chancellor of Exchequer in London. In the event of a Central Bank being created, I would suggest that the presence of the Governor of such Central Bank should be made obligatory at the meetings of the Clearing House Committee.

I further suggest that in the interest of maintaining harmony and dispelling suspicion and mistrust, Exchange Banks Association should invite Indian banks to become its members, and as far as practicable, it should abandon its policy of patronising interests based on racial distinctions.

Credit Information—Seyds, Ltd.—I consider it as one of the serious defects that there is no organised agency for collecting and compiling information as to the credit position of merchants and traders in India. It appears to be a general practice with banks in India that the head shroff is the purveyor and repository of all such information, and this is the reason why even exchange banks employ Indians for this office. With due deference to the experience and knowledge of these bank officials in India, I may say that information held by banks in regard to many parties is not only inaccurate but positively misleading. All the bazaar gossips without being confirmed at the proper source are poured into the manager's ears with results which can be better imagined than described. I say it on the authority of an important business house—which was till recently the subject of daily canards—that it was most unjustifiably persecuted by some banks on the score of these incredible rumours. Again, the estimates made about the means and financial standing of parties are often too high or too low. The Lichmore Case of recent memories showed the gullibility of our banks in this respect. I have in my possession certain facts—which I cannot divulge here—which make me wonder why banks fell over one another's shoulders in advancing lakhs of rupees to this merchant. During my short experience of the Bombay market, I have come across several instances where information possessed by banks was either wrong or useless. I would draw the attention of this Committee to the activities of that well-known London agency—Seyds Ltd.—which is regarded by London banks as a very reliable source of information regarding the financial standing of merchants, traders and joint stock companies. This is a private company with limited liability formed under the ægis of certain big banks with the object of compiling this information which is made available to banks and other members on payment of an annual subscription. The several volumes issued by Seyds are usually kept by banks under lock and key and these volumes are supplemented from time to time by other information obtained later. If I am not mistaken, information is supplied to non-members on payment of a special fee in respect of each party. In addition to this, banks in London have a small separate Information Department which is specially engaged in collecting, collating and correcting reports on various parties.

Credit List.—Very recently, however, a new move has been made in London. In spite of an efficient service, several London banks suffered large losses over the failure of a well-known Italian firm commonly known as 'Siemat'. It appears this firm which enjoyed great credit with banks in London and other places borrowed large sums from different banks without the latter having any idea of the firm's total borrowings. This experience was of a novel character, and of the various suggestions made to profit by it, the idea of establishing a 'Credit List' with the Bank of England appears to have gained general approval. It will be to the interest of all banks to supply correct information as to the borrowings of various customers which would be collected by the Bank of England. At any time, therefore, the Bank of England will be placed in a position to state the total borrowings of any party from banks without necessarily divulging the different amounts borrowed from different banks.

I suggest, therefore, that under, the leadership of the Imperial Bank, banks in India should establish an agency like Seyds and supplement it by a Credit List on lines similar to those mooted in London.

I believe that lack of proper information with banks is also responsible for the risks involved in discounting local hundis. Unfortunate experience of recent years has obliged some banks to discontinue this line of business. Irrespective of his means, a well-dressed man or a man with a well-appointed residence or office can at present raise fairly large sums of money on hundis which are renewed indefinitely through the obliging Multanis, provided he is prepared to pay nine to twelve per cent. interest. I was staggered to learn that a few years ago a well-known Bombay merchant worth a few lakhs of rupees had managed to raise some forty lakhs on hundis which were well-spread over the signature of his several assistants, and which were discounted with different banks through the ingenuity of Multani brokers. I wish this Committee would follow up this matter and ascertain from banks their varied experience as to bad debts, repeated requests for renewals, the extent of kite-flying, etc.

Bank Rate.—The Bank Rate in India is the rate at which the Imperial Bank of India will advance money against securities specified in the Imperial Bank of India Act (1920) as eligible for such advance. This is not the same as the hundi rate which is a half per cent. lower or higher than the Bank Rate. It is announced every Thursday in the Weekly Statement of the bank. It has been our common experience that several times the Bank Rate has little correspondence to the actual state of money in the market. For instance, when the Bank Rate was raised to seven per cent. on October 31, 1929, banks were finding it difficult to lend money at two per cent., and money continued to be easy till the end of 1929. The explanation for this state of affairs lies in the fact that the Imperial Bank has not a completely free hand in the matter. Under the Imperial Bank Act, the Governor-General-in-Council has the power to call upon the Bank to do certain things which he may deem necessary in public interest. This power has been requisitioned several times in recent years to coerce the Imperial Bank into putting up its rate, even though such action may have no justification in the actual state of the money market. It is now an open secret that both in the beginning of 1927 when Sir Basil Blackett refused to make loans from the Currency Department under Section 20 of the Currency Amendment Act (1923) unless the bank raised its rate, and also in the spring of 1929 when the Bank Rate was pushed up to eight per cent., there was serious disagreement between Government and the bank. I cannot believe that the Finance Member himself will not admit having used the Bank Rate as a lever for bolstering his currency and exchange policy. The open divorce in control of currency and credit is thus made manifest.

In Western countries, the Bank Rate is a good indicator of money conditions. Its regulation is also based on considerations of its effect on the trade and industry of the country. That Government has no hand in the regulation of Bank Rate in England was officially confirmed by Mr. Snowden a few months back. The history of money conditions in London during the last twelve months shows in a convincing manner the regard and anxiety of the Bank of England for the interests of English trade and industry. Again, the commendable promptitude with which the Federal Reserve Bank lowered its rate soon after the collapse on the New York Stock Exchange last year was only in accordance with the established practice of regulating the bank

rate in a manner which is helpful and not harmful to the economic interests of the country.

Need for a Central Bank.—I cannot conceive of any remedy for the lackadaisical state of affairs in India as long as the control over currency and credit is vested into two separate authorities. This fundamental defect in our financial arrangements must be remedied with the least possible delay. Whilst the fluctuating money conditions cannot be entirely avoided in an agricultural country like India, it is eminently desirable and certainly possible to minimise the violence of these fluctuations. The only effective solution, to my mind, lies in creating a strong Central Bank in which could be combined control both of credit and currency. If people in India are foolish enough not to understand their true interests and oppose the establishment of such a bank, they will go down in history as silently acquiescing in laying the burden of unfair and extortionate money rates on the trade and industry of this country. I cannot suggest it as a practicable proposition that Government should be divested of their powers under the Imperial Bank Act as long as they are saddled with responsibility for the management of currency. Although it may be taken for granted that Government endeavour to keep themselves informed of conditions in the money market, our recent experience of changes in the Imperial Bank Rate at the behests of Government confirms the widespread belief that this indirect control of credit, which is not based on first-hand information of and immediate contract with the trade and industry of the country, cannot but be detrimental to our economic interests. Government's direct intervention affects our markets to an unduly exaggerated extent; the same operations could be effected with much less disturbance through the agency of a Central Bank.

Sir Basil Blackett's Scheme.—Since the subject of a Central Bank was so widely discussed recently, I do not propose to treat it at length. I am a strong supporter of the scheme of Reserve Bank formulated by Sir Basil Blackett, with some modifications as to details. I believe such a bank must be organised on joint stock basis with necessary restrictions as to distribution of profits among the shareholders. In a pamphlet which I published two years ago, I have suggested that only banks can be shareholders of this bank. I adhere to that suggestion. Sir Basil Blackett's scheme was wrecked because the Legislative Assembly demanded a share in the management of the bank. Even making the most liberal allowance for our present political disabilities and the irresponsible character of Government of India, I believe the demand made by the Assembly was entirely lacking in support from experience of other countries. It will be impossible to have an efficiently managed Central Bank if it is subjected to the political vagaries of the legislature. For one thing, it is an idle self-delusion to believe that our legislatures are representative institutions; for another thing, no one can seriously contend that, with very few exceptions, members of these legislatures are competent to guide with any knowledge or authority the management of such a bank. A good politician is not necessarily a good businessman. Common experience teaches us that no credit institution can survive if the details of its management are to be subjected to a public inquisition by men who cannot gauge the effect of such action on the lay mind. I am amazed at the obduracy of Indian leaders who persist in not recognising the fact that a strong Central Bank will free us from our financial bondage to Whitehall. That in itself would be an immense gain which would, in course of time, prove to be incomparably greater than the dubious legislative control over the management of the bank.

Advisory Council.—However, if this misguided opposition still obstructs the establishment of a Central Bank, it should be satisfied by the creation of an Advisory Council consisting of seven or nine members elected by the Central Legislature. This Council should be consulted by the Board of Directors on matters of policy, but its advice should not be binding on the Board. The Council should be given powers to ask for any information pertaining to the bank on condition that every member is pledged to treat such information as absolutely confidential and not to use it for personal gain. I also suggest the possibility of creating a convention—as in case of railway finance—in the Assembly, which would make possible an occasional debate on the general policy of the bank. I think it will also go a long way in meeting Indian sentiment if it is provided that the Governor and Deputy Governor can be removed from office by a vote of censure supported by three-fourths majority in the Assembly.

Indian Management.—In any scheme that may be ultimately accepted, I would insist on provisions for the management of this bank by Indians. In early years, we may need the advice and guidance of foreign experts, but it must be expressly laid down that such guidance should be of a consultative and not controlling nature.

Future Position of Imperial Bank.—As the question of the future of the Imperial Bank of India is closely connected with the problem of a Central Bank, it may be conveniently discussed here. I am of opinion that with all its faults and shortcomings, the Imperial Bank has rendered meritorious service to India in the direction of providing banking facilities and creating banking habits in different parts of the country. The Imperial Bank, it must be gratefully acknowledged, has also lent considerable support to some of our industries which would probably have irreparably suffered but for this assistance. But it has to be added that with the resources at the bank's disposal, the bank could have certainly done more for furthering the trade, commerce and industry of India, if the management had been inspired by a broader outlook and keener vision than we have hitherto experienced. The management of a bank of this character ought not to be mainly actuated in their policy by considerations of maintaining fat dividends of sixteen per cent. for the shareholders. It is also legitimate to expect of such management to stand by our principal industries in time of stress and strain and not to accentuate their difficulties by withdrawing the facilities granted in ordinary circumstances. I strongly feel that the treatment given to some of our cotton mill companies in Bombay in recent months was contrary to the spirit which should animate the management of such a bank in its attitude towards the economic interests of the country.

The idea of developing the Imperial Bank into a Central Bank is neither practicable nor advisable. Particularly in a country like India where people are extraordinarily sensitive in money matters, it is not desirable to vest control of currency in an institution which is engaged in financing trade and industry. The credit of the bank as the issuer of currency is likely to be influenced by its activities in the other department of work. I would then question the wisdom of asking the bank to break off its present connections with the commerce and industry of the country, which certainly cannot be done without at the same time strengthening the resources of other banks to take over the commitments of the Imperial Bank or in the alternative precipitating a first-class financial crisis in India.

I think the arrangement suggested by Sir Basil Blackett in his bill for the future working of the Imperial Bank was over-generous to the bank and unfair to other banks and the public. In the event of a Central Bank being

established, the Imperial Bank should be incorporated under the Indian Companies Act and thus allowed to do all kinds of business which other banks do. On the Imperial Bank undertaking to maintain all the branches opened hitherto, it should be appointed agents of the Central Bank where the latter has not opened its office on terms and conditions based on the value of such services. The shareholders of the Imperial Bank have been benefitting all these years from the free use of crores of public funds, and they must frankly recognise that their open and undisclosed reserves have been built out of this privileged position. They should not also have any apprehension as to the future prosperity of the bank since it will start its new life with established connections and considerable prestige which will help the bank in competing successfully with other joint stock banks. It is possible the bank may have to scrap some of its costly paraphernalia which even now appears unnecessary or wasteful. That must involve some hardship, but it can hardly be helped when wider interests are to be considered.

Cost of management.—I consider it as one of the weaknesses of most of our banks that their cost of management is disproportionate to their earnings. For obvious reasons I would not undertake the invidious task of comparing the cost of management of different banks in India. In some cases, legal charges have unfortunately laid a heavy burden on banks' earnings, but, even apart from this special item, the establishment charges must admit of considerable reduction. The folly of purchasing or building large and costly premises for housing banks cannot now be righted at once. But it is an instructive pointer for new banks that may be started in future. I wonder if some of our banks realise that the interest earned on their investments in buildings, allowing for proper depreciation, is not even as much as they pay on current accounts.

I think our banks should make careful study of the methods employed by big English banks in organising and managing their branches. To my mind, if the complaint made by banks that most of their branches are not remunerative is closely investigated, the reason will be found in a lack of sense of proportion on the part of the management which is unduly influenced by a false sense of prestige in running a larger and more expensive establishment than is justified by the exigencies of business at different branches.

The adoption of a definite policy of Indianising the management to a larger extent than at present will certainly assist in reducing the cost of management of those banks which are not managed by Indians. But speaking generally of all banks, I feel that the higher staff can certainly stand some scaling down in remuneration. It is hypocrisy to ask for Indianisation of management on the score of resultant economy and to support in the same breath the extravagant scale of remuneration paid to Indian officers.

I also suggest the use of labour-saving devices which are now being employed by American and English banks. The adding machines and the mechanical ledger-writers will certainly help banks in reducing their cost of management.

(*b*) The rates of interest on advances made by a bank depend principally, apart from the nature of such advances, upon the average borrowing rate of a bank as well as its cost of management. In the peculiar circumstances arising out of seasonal demand for money in this country, and also because of unregulated operations of Government in the money market, I think the rates of interest charged by banks in India cannot be considered unduly high. I feel certain that this Committee will appreciate the decisive influence of the financial policy of Government in determining the rates of interest

on bank advances. Most of such advances are arranged on the basis of the Imperial Bank Rate—in some cases a little under and in others a little over this rate. The grievances of the trading community against the rates charged by the banks are to a certain extent justified in that for many months in the year the Imperial Bank Rate does not reflect the true condition of the money market. I have seen banks advancing money at 2½ per cent. on gilt-edged securities while charging 7½ per cent. to trade and industry on their cash credits. Recently, moreover, the difficulties of banks have been increased by the continuous borrowings of Government at rates which naturally have robbed banks of some of their deposits and also increased their average borrowing rate.

I must, however, point out that the reduction in cost of management will certainly enable banks to reduce their loan rates. I have already suggested some directions in which this can be achieved.

(*c*) Banks are dealers in credit, and credit is a very sensitive plant which is often destroyed by the germ of suspicion. Confidence in the stability of a bank means to the layman, in the plainest terms, that there is no reason to suspect anything wrong in its management. Such attitude in the lay mind is produced, for instance, by the existence of a board of directors consisting of businessmen of some experience and influence, men who can be trusted with other people's money, men who can devote time and energy to their work, men who do not seek company directorships as a money-making sideline. Frankly one has to recognise that the fundamental weakness of some of our banks lies in weak directorates, consisting of men with little independent judgment of their own, men who would certainly fail to stand an examination on balance sheets signed by them, men who are directors of dozens of companies and cannot, therefore, find time to scrutinise the management of their bank. A drastic overhauling of the directorates of these banks would certainly be more fruitful in establishing their credit than any legislative enactment for repressing harassment by spiteful critics.

The stability of banks may also be enhanced by furthering a spirit of goodwill and co-operation among banks in the country, irrespective of racial or national consideration. But I believe that this noble object cannot be so easily achieved without a strong Central Bank in the country. The remarkable co-operative spirit shown by London banks under the inspiring leadership of Governor Lidderdale of the Bank of England during the Baring Crisis in 1890 should be the ideal which our banks must strive to attain in practice.

I am a convinced supporter of the idea of calling upon all banks to deposit with the Central Reserve Bank a certain percentage of their time and demand liabilities. This is bound to exercise a psychological effect on the lay mind in increasing the confidence of the general public in the stability of our banks. It may hamper banks to some extent immediately, but the growth of banking habit and the increase in bank deposits, which are bound to follow in course of time, will amply compensate banks for diminution in their profits in the initial years.

No. 39.

Statement of evidence submitted by R. Sivaramakrishnan, Esq., M.A., Assistant Audit Officer, Commercial Audit Branch.

As your Committee is now engaged in an enquiry into banking methods in India, I venture to bring to its notice an incident which I believe would throw some light on the way business is transacted by the Imperial Bank of India.

I am not writing this in my official capacity, but as a member of the public who feels that he has reason to be irritated by the business methods of "Imperial Bank Agents" if they can be said to have any 'methods'.

I am a gazetted officer of the Government of India stationed at New Delhi, and have maintained a current account with the local branch of the Imperial Bank of India for about two and a half years. My pay is collected by the bank every month, and it is aware of my pay and status in life.

Having bought a motor car recently, for which on account of some technical difficulties I could not get an advance from Government, I was obliged to ask the Imperial Bank of India to allow me to overdraw my account by a maximum of Rs. 300 (which is less than half my pay for a month) in the course of the next two months, stating that the overdrawal with interest due may be adjusted when my pay for May 1930 payable on the 1st June is collected. I explained the reason for the request, which was that the payment of the capital cost of the car left me very little money for current expenses, and stated that any further details necessary can be had by enquiring from me by telephone giving the phone number.

I got a reply from the Agent that he regrets he is unable to grant the advance asked for. He had cared to make no enquiries of me and did not condescend to give the reasons for his regret. An ordinary man would, I believe, have thought that this was a case where a temporary accommodation was justifiable and the security good.

The want of sympathy and the narrow outlook of the bank Agent concerned is, I submit, typical of his genus in India. The method of the recruitment of bank agents and the steps taken to ensure that only men with business ability and insight into business are appointed to those posts would no doubt be looked into by the Committee.

No. 40.

Statement of evidence submitted by Mr. M. L. Tannan, M. Com. (Birm.), Bar.-at-Law, I.E.S., Principal, Sydenham College of Commerce and Economics, Bombay.

BANKING EDUCATION.

Q. 1. What are the existing facilities for banking education in schools, colleges and universities in India?

Banking education, which is a branch of higher commercial education, was almost wholly neglected in this country until October 1913, when the Government College of Commerce, now known as the Sydenham College of Commerce and Economics, was started in Bombay for training students for the B. COM. degree of the University of Bombay. Under the old regulations of the University the subject of "Special Branches of Economics" which included elements of banking and currency was one of the compulsory subjects prescribed for the B. COM. degree examination. The new regulations sanctioned for that examination in 1925 give the subjects of Indian Currency, Banking and Exchange, a prominent place at the B. COM. Examination of this University. Those who take up Advanced Banking as their optional subject are required to study also the credit organisations of the principal countries of the world, banking law and practice, and advanced currency problems. Commerce graduates of this University are required to have a fair knowledge of Economics, Accounting, Commercial Geography, Public Finance, Mercantile Law, Modern Economic Development, Trade and Statistics and one of the following optional subjects:—

1. Advanced Accounting and Auditing,
2. Advanced Banking including Banking Law,
3. The Organisation of the Indian Cotton Industry,
4. Actuarial Science,
5. Economics of Transport.

Special courses of evening lectures on subjects of interest to those engaged in banking during the day are also arranged at the college from time to time. Among the subjects dealt with in the course of evening lectures are "Banking", "Banking Law", "Stock Exchange Securities", "Foreign Exchanges", "Bankers as Lenders", etc. These courses of lectures are open to bank employees and others either free of charge or on payment of a small fee of 8 annas a lecture.

During the last 15 years, several other Universities such as Calcutta, Lucknow, Allahabad, and the Punjab, have instituted commerce degrees, and the courses prescribed for them also give a fairly important place to the study of banking and allied subjects.

The elementary principles of some of the subjects referred to above are also taught in some commercial schools—Government and private—to candidates preparing themselves for the Government Commercial and Clerical Certificate Examination, started by the Government of Bombay in 1926, the L. C. C. and the Indian Merchants' Chamber Examinations and in a few cases for the examinations of the British and Indian Institutes of Bankers.

The Council of the Indian Institute of Bankers invited last year some prominent gentlemen to deliver a few lectures on topics of special interest to bankers, and has recently decided to organise a few courses of lectures for the benefit of bank employees, particularly those preparing themselves for the Institute's examinations.

Is there any co-ordination of effort between such institutions and the banks?

As far as I know, there is hardly any co-ordination of effort between such institutions and the banks. However, I am glad to state that most of the prominent bankers in Bombay take interest in the activities of the Sydenham College of Commerce and Economics, Bombay, and are generally available for advice with regard to the courses. They also try to come in contact with its students by attending functions arranged by the various associations of the college students.

The late Mr. (afterwards Sir) Robert Aitkin of the Bank of Bombay was at my request good enough to draw up a scheme for the recruitment of probationers from among the University trained Indians in general and the graduates of the said college in particular. The same scheme formed the basis of the memorandum scheme published by the Imperial Bank of India in connection with the training of Indians for service in banks.

Q. 2. Do banks provide any facilities for the training of boys in banking business?

Banks in India, as a rule, do not provide any special facilities for the training of boys in banking business. The Tata Industrial Bank, Ltd., had a fairly regular apprenticeship scheme, and took about a dozen apprentices, mostly commerce graduates, for training for higher appointments. The Bank of Mysore, Ltd., takes up graduates as probationers, and it is understood that the commerce graduates taken into its service by the bank have "turned out well". Such a scheme, if generally adopted by banks in India, would enable them not only to secure the necessary trained staff for expanding their business by an extensive system of branch banking, but also to Indianise their superior staff in the course of a decade or so.

What is the present method of recruitment of staff by the Imperial Bank of India, the Indian joint stock banks, the exchange banks and the co-operative banks?

Each bank recruts its staff in its own way. At present recruitment for the staff appointments in the Imperial Bank of India is very largely made in England from among the very junior members of the staff of the English and Scottish banks

As explained in reply to No. 1, educated Indians are appointed as probationers in the grade of Rs. 150—50—250 in the Imperial Bank of India. Some of these are promoted to the staff appointments. Although in the scheme referred to above preference is supposed to be given to the graduates of the Sydenham College of Commerce and Economics, only very few graduates of the college have been taken up during the last few years. The clerical staff is recruited from boys who have completed their school education.

While for banking business, character, personality and good family connections are useful, it appears desirable that, with a view to obtain the most competent recruits and to avoid public criticisms, recruitment should very largely, be on the basis of a competitive examination—written and oral—the latter largely to enable the bank authorities to judge of personal appearance, speech, deportment, family connections, etc. It is also felt in some quarters that further recruitment of non-Indians, except for some of the higher appointments in the bank for which Indians of required qualifications may not for some time be available, should be stopped.

Recruitment in Indian joint stock banks also does not apear to be based largely upon merit, and it would, therefore, be desirable to provide for selection on the basis of merit where the other essential requirements are fulfilled.

The exchange banks generally engage Indian staff mostly for clerical appointments, and recruitment for higher appointments is made abroad. With a view to enable the exchange banks to carry on their business with the goodwill of the people of the country it appears desirable in their own interests that they should throw open at least a small percentage of the higher appointments in their branches in India to Indians possessing the necessary qualifications.

In the field of co-operative banking, all appointments are filled up by Indians, but generally no proper system for the recruitment and training of staff exists.

Q. 3. How far is instruction in banking, theoretical and practical, combined at present?

There is at present very little combination of the theoretical and practical training in banking. No doubt the Central Bank of India Ltd., made a beginning in this direction by engaging the services of an Indian graduate of the Columbia University, who, in addition to some other duties, was required to give lectures on banking and allied subjects to its staff at the head office. The Central Bank of India Staff Association also invites occasionally some well-known persons to lecture to them on important banking problems. It is understood that, perhaps with a view to cut down the expenditure, the services of the graduate referred to above have been dispensed with.

Q. 4. Can you give any information regarding the facilities afforded in other countries in the matter of banking education? Have you any suggestions to make regarding the facilities that should be made available in India?

The importance attached to theoretical training in banking and allied subjects in the Western countries can be gathered from the following extract from an interesting article entitled "The Training of a Bank's Staff" by Mr. J. G. Holt:—

"It is, however, the knowledge obtained over and above the ordinary routine work of the office that is really valuable..................If no knowledge of banking laws is possessed, experience, instead of confirming all the man has learned and of expanding his mind, conveys little of the reasons which make different operations necessary. Thus, lack of theoretical knowledge tends to make a man mechanical in his work, from sheer

inability to appreciate its true significance and from the resultant monotony that must inevitably be produced by the performance of work that is not understood."

"Men are to be found who have been employed upon one kind of work for years, and on account of the facility they have necessarily acquired the management is loth to change. These men, however, can become efficient in routine and no more".

The banks in England give every encouragement in the matter of banking education. In the case of their own staff they provide facilities to enable those desiring to attend evening courses of lectures, and make grants for books, tuition and examination fees. On their passing the examination of the Institute of Bankers, in addition to the cash bonuses, generally a certain period by way of seniority is added to their service. Sometimes an increase in salary is given, but generally some credit to those who have passed the Institute's examination is given in the matter of promotions.

Most of the big bankers also invite suggestions for the improvement of the business, and offer handsome rewards for those used to their advantage.

The late Mr. Walter Leaf and many other leading English bankers were largely responsible for the institution of the commerce degree by the University of London. It is believed they not only, helped in the provision of funds required for training in the courses prescribed for the said degree, but actually encouraged the employment of University trained members for better class work in banks by establishing in London the University Bureau which was to act as a liaison between the University of London and the business houses of the city. The American Banking Association, with the help of the Foundation Fund of half a million dollars started in 1925 to commemorate its fifth anniversary, provides annually 167 college loan scholarships, ninety-eight of which are now being proffered to seventy one colleges and Universities for stimulating and aiding worthy men and women students to pursue courses in banking and economics in colleges. A copy of the scheme is given in Appendix A.

The Institute of Bankers in England, the American Institute of Bankers, and the educational section of the American Banking Association, endeavour to improve the personnel which goes to make up the banking profession. The chief purpose and aim of these bodies is to mould the young men taking up banking as their careers into the most useful element possible in their own interests as well as in those of the bank they serve and the country. These bodies not only hold examinations to test the knowledge of the candidates, but also arrange courses of lectures and offer prizes and scholarships for essay, etc., to bank employees and others.

Some of the leading banks in England have their schemes of foreign scholarships. In 1920, the Directors of the London County Westminster and Parr's Bank, announced the following scheme of foreign scholarships:—

"It is intended to give, every year, a few scholarships to male members of the staff, the Directors reserving the right to award them to outside candidates in exceptional cases. Selected candidates must give evidence of such general education as will afford a presumption that they will derive

full benefit from foreign experience, and must also have attained a satisfactory standard of technical training and of practical banking experience. The age limit will, as a rule, be 21 minimum and 30 maximum, but the maximum limit will be raised to the extent of any period spent by the candidate in military or naval service. Candidates must be of British birth, must be medically fit, and must, as a rule, have passed part one and two of the Institute of Bankers' examination, or have passed the Intermediate Examination for the B. Sc. (Econ.) or B. Com. degree. Proficiency in French or Spanish will be essential, such proficiency to include a knowledge of commercial correspondence and ability to converse in the language. A fair knowledge of a second foreign language will be obligatory. Good reports, both as to conduct and work, will be a necessary preliminary. Over and above their salaries, which will be subject, during the holding of the scholarships, to normal increases, the men selected for scholarships will receive, during their service abroad, an allowance towards the cost of living in the country selected by the bank, together with allowances sufficient to cover travelling. They will be required to enter into a written undertaking to return to the bank as and when required, and to remain in the service of the bank for such time as the directors may determine after the expiration of the scholarship, such period to be, as a rule, not less than five years. Scholarships will, in the first instance, be held for a year, but on evidence being furnished that they are being satisfactorily utilised, an extension of a year may be granted, and in exceptional cases some further extension may be granted. The normal amount of each Scholarship will be £100 per annum in addition to salary and allowances as above. The usual scale of holidays will be allowed, and the financial facilities given to members of the bank's staff abroad in connection with holiday leave will be extended to holders of scholarships. In addition "Study leave" and other facilities for obtaining a knowledge of the country visited will be given, if the directors are satisfied that full advantage will be taken of such facilities. Applications for continuance of service abroad will be considered favourably if the holder of a scholarship has undertaken, but not completed a special line of study in the country."

In view of the fact that banking development is of the utmost importance to this country and that the extension of banking cannot take place unless a large number of trained Indians are available, every encouragement should be given by banks in India to their staff on the lines followed by banks in the Western countries. The banks can, on the one hand, give facilities to their employees for theoretical training and, on the other, help those who are undergoing theoretical training in acquainting themselves with the practical aspect.

Some banks in India have already begun to encourage their employees to equip themselves with theoretical training. However, the banks appear to be reluctant to offer facilities for the practical training of those who are attending University courses of studies in banking.

In this connection, attention is invited to the following extract from the written statement submitted by me to the Bombay University Reform Committee of 1924.

"As regards the training for commercial careers, I think it desirable to provide for some practical training:—for instance, the students who take up advanced banking as their optional subject, should be required to spend the Long summer vacations in their second and third years in a bank,

the accounting students with practising accountants, and the cotton students in the office of cotton merchants and in mills."

While it is absolutely necessary for University trained young men to realise that they cannot occupy responsible positions in banks without first acquiring sufficient practical training, it is equally essential for banks to appreciate that the complicated nature of the modern banking business makes it imperative for their success that their employees must undergo adequate theoretical training in addition to practical experience.

The banks are right in their attitude that the taking of apprentices for short periods will not benefit them (the banks) directly, and may even in certain cases mean some expense or inconvenience in the form of the loss of the time of the officers under whom the banking students would have to work, but there can be no doubt that it would help them and the country manifold ultimately. With a view to enable banks to admit for practical training only persons who can be depended upon in the matter of compliance with the bank's rules and conditions of work, the production of certificates from persons in responsible positions may be insisted upon.

Have you any suggestions to make in regard to the grant of facilities for higher training outside India to bank probationers and bank assistants in India?

Bankers in India should grant foreign scholarships and study leave mainly to their experienced employees for the practical study of international exchange business and for widening their banking outlook. If possible, they should arrange with their correspondents and agents in countries like England and the U. S. A. to provide facilities to persons to be deputed by them (the banks in India). The Punjab National Bank, Limited, of Lahore is understood to have obtained facilities from their London Agents for the practical training of some young men deputed by the said bank. A few of the young men thus trained have on completion of their training been taken up by the Imperial Bank of India in its staff officers' grade. If practicable, Government may also try to obtain such facilities from banks in England and elsewhere.

Q. 6. What is the present position and what in your opinion should be the future position of the Indian Institute of Bankers in regard to banking education?

At present the Indian Institute of Bankers, besides arranging a few lectures at Bombay, holds an examination annually on the lines of the English Institute of Bankers. The Indian Institute of Bankers should devote more attention and funds for the purpose of spreading banking education in the country. It should organise courses of lectures primarily for the benefit of bank employees at other centres such as Calcutta, Madras, Delhi, and Rangoon. Gradually the facilities should be extended to centres like Cawnpore, Lahore, Karachi, etc. It should also offer on a liberal scale prizes for essays on subjects of banking interest and scholarships for research in such subjects.

Q. 7. What is the training of indigenous bankers at present? Have you any proposals of a practical nature for the provision of special training for this class?

The training of the indigenous bankers at present comprises the practical experience generally gained by them in their family business. This makes their outlook rather narrow, and consequently they are apt to

ignore the need for and the means by which they can improve their business to their advantage as well as to that of their customers. It is for this reason that the indigenous bankers of this country, unlike their confreres in the West, have not yet realised the need for giving publicity to their accounts. Only a few of them even supply their customers with printed cheque forms for drawing cheques upon them.

It would be desirable to introduce courses dealing with elements of banking, accounting, commercial arithmetic, etc., in the secondary education. In this connection, attention is invited to the reply given in answer to question No. 1 above. The Government Commercial and Clerical Certificates examination which was started by the Government of Bombay in 1926 with a view to provide training in important commercial subjects such as commercial arithmetic, elements of book-keeping, office management, Indian banking (elementary), etc., in addition to subjects such as English and commercial geography, for young men who after completing their school education wish to take commercial or clerical appointments will go a long way in meeting this need. A copy of the press note on the subject is given as appendix B.

It is also desirable that evening courses of lectures on banking and allied subjects such as the ones that are delivered at the Sydenham College of Commerce and Economics, Bombay, should be arranged by Universities, educational institutions and banks for the benefit of indigenous bankers, their staff and others interested in their study. Attempts should also be made at a later stage to arrange courses of lectures in such commercial subjects as are referred to above in important vernaculars.

Q. 8. What are the prospects, present and future, of boys trained in banking in India?

The prospects for young men trained in banking are, I should think, fairly bright, and are bound to improve with the development of banking and the gradual Indianisation of the banking staff in this country.

Do you attribute the slow development of banking and specially branch banking to absence of trained men in India?

The absence of trained Indians is decidedly one of the main factors responsible for the slow development of branch banking in India. As leading banks in India have had in the past to depend largely upon non-Indian staff for the posts of branch managers the opening of branches except in large cities was hampered as they could not bear the cost of a comparatively highly paid superior staff. For instance, if a European manager was to be appointed as a manager of a small branch, his comparatively high salary and allowances, if any, on the one hand, and comparatively small business in the first few years, on the other, made it difficult for banks to open such branches. Branch banking in India would have made much advance if trained Indians willing to accept comparatively small salaries were available for working as agents at small branches. The growth of branch banking in this country has in the past been retarded also owing to the fact that the European managers of branches of banks, being ignorant of the common language used in business at certain places as well as of the social customs of the people, could not come into the requisite close contact with them. If branches of banks in comparatively small centres are placed under competent Indians, it will encourage people to do business with joint stock banks, and thus increase their earning powers, while their expenses will be kept at a low level.

APPENDIX A.

*American Bankers Association to Provide 167 Scholarships.

That one hundred sixty-seven collegiate loan scholarships will be provided by the American Bankers Association Educational Foundation, ninety-eight of which are now being proffered to seventy-one colleges and universities in thirty-four states, is announced by John H. Puelicher, President, Marshall and Ilsley Bank, Milwaukee, Wis., as chairman of the Foundation's Board of Trustees. The foundation fund of $500,000 was started in 1925 by the association to commemorate its fiftieth anniversary, and aims to stimulate and aid worthy men or women students to pursue courses in banking and economics in collegiate institutions throughout the country. The scholarship awards will be available for the scholastic year beginning next fall, and will provide recipients with loans of $250, to be repaid on easy terms following their entry into earning business life.

A special feature of plan.

A special feature of the plan in addition to its educational advantages is that scholars, upon discharge of all financial obligations connected with their loans, will be given certificates of honorary membership in the foundation signed by the members of the board of trustees, which will be available as evidence of financial reliability for their use in starting their business careers.

Proffers of one or more scholarships setting forth the detailed rules under which the loans will be made through the collegiate authorities and the plan under which the recipients are to pursue studies under their supervision have been made to the following institutions...........

Plan of Allotment.

The general plan allots one scholarship to a higher institution of learning in each state where the banks have completed the subscription quotas assigned them in the foundation fund. Additional scholarships are allowed for each unit of $2,000, or excess fraction of that amount above $500 contributed from a state. The plan for raising the $500,000 educational fund allocated the first $250,000 to private subscription by bankers throughout the country, and then the remaining $250,000 was divided among the various states proportionately to their banking figures. Maturity of pledges will soon complete the fund.

Under the rules adopted by the foundation trustees, institutions allotted scholarships are selected on the basis of type of school, educational standards, geographical distribution and their desire to co-operate in the plan. A committee to award the scholarships is to be created in each selected institution and will consist of the head of the school of business administration or department of economics or an equivalent officer as chairman, a professor or instructor in charge of banking courses, the dean of students and a prominent banker chosen by the president of the college and chairman of the committee. The duties of the committee are to select students for scholarships and co-operate with the foundation in administering the plan. The

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* The Bankers Magazine, June 1928.

plan, while not demanding scholarship of the highest rank, aims to develop leaders in business life and therefore precludes awards to mediocre or inferior students.

All scholarship applications must be made formally through these college committees and not direct to the foundation. Three hometown references are required of each applicant, at least one of whom must be a banker. Only students of junior or higher grade in banking and economic courses are eligible, and those who have also attended American Institute of Banking courses will be given preference. Scholarship payment will be given only to those whose means of education are dependent in whole or part upon their own efforts, and will continue only during satisfactory scholastic standing or conduct.

THE SCHOLARSHIP LOANS.

The scholarship loans are at 5 per cent. beginning the first day of the second January after the date the scholar leaves school, and no interest will be charged if repayment is made prior to that time. Loans may be paid off in instalments of $10 or more beginning as soon as desired, but repayments must begin the first day of the second January after a student leaves school at the rate of at least $10 monthly to be applied towards reduction of principal and interest. After three monthly instalments have been promptly met payments may be placed on a quarterly basis until the loan is wiped out, which must occur within three years. Although action will be taken in case of delinquencies, consideration will be given to special circumstances such as ill-health or unavoidable unemployment.

APPENDIX B.

PRESS COMMUNIQUE NO. P.-55 OF 15TH FEBRUARY 1926 BY THE DIRECTOR OF INFORMATION, BOMBAY.

By starting the first College of Commerce in this country the Government of Bombay have placed at the disposal of the industries and commerce of the Presidency a regular supply of young men who, after receiving sufficient practical training, can hold responsible appointments in business houses. The number of young men, however, who can afford the expense and strain of a Commercial education of University standard is small, and there is a large number of students who after receiving a good general and useful education upto 16 to 18 years of age wish to take up service in a commercial or Government office. It is in the interests not only of these individuals, but of the industrial and commercial progress of the country, that adequate provision should be made for Commercial education of a more elementary character than that provided for by the University courses. The educational facilities at present open to such youths are as a rule not of a satisfactory character. Most of the institutions which have hitherto given instruction in Commercial subjects are of an unsatisfactory character, and are in respect of staff, equipment, and accommodation, ill adapted to the end for which they exist.

It would appear that the present unsatisfactory situation is largely due to the absence of a suitable objective in the shape of an examination for which Commercial institutions may prepare. The need for the establishment of a Secondary Commercial examination based on the conditions existing in this Presidency has been represented to Government. Government have therefore decided to institute a Commercial and Clerical Certificate Examination. For this examination the following subjects will be compulsory :—

1. English—including Précis Writing and Commercial Correspondence.
2. Commercial Arithmetic—Chiefly of a practical nature.
3. Elementary Book-keeping.
4. Commercial Geography.

In addition there will be two optional subjects, selected from (1) Shorthand, (2) Typewriting, (3) Office Management, Filing, etc., (4) Accountancy that is, more advanced Book-keeping, (5) Administration, *i.e.*, relations of Government with local bodies, (6) Indian Banking (Elementary), and such other subjects as may hereafter be thought necessary.

It is proposed to hold the examination in April, the first examination being held in 1927.

No candidate will be admitted to the examination unless he has, during the previous academic year, been a regular student of an institution recognised for the purpose of this examination. Applications for recognition for the purpose of the examination should be addressed to the Director of Public Instruction and submitted through the Inspector of Commercial Schools, C/o. the Principal, Sydenham College of Commerce and Economics, Bombay. A detailed syllabus of the examination will be published at a later date.

No. 41.

Statement of evidence submitted by Mr. B. T. Thakur, Member, United Provinces Banking Enquiry Committee.

A.—Banks working in the province.

The banks working in the province can be divided into four classes: (1) Imperial Bank of India, (2) Exchange Banks, (3) Joint-Stock Banks and (4) Co-operative Banks. The liability of the shareholders of the first three is limited to the amount of their respective share holdings. In the case of the fourth, the liability of the members of primary societies or unions is unlimited.

The Imperial Bank of India.

The Imperial Bank of India is incorporated under a special Act of the Indian Legislature. Although its head office is outside the province, it has branches in all the important towns and cities. At places where the bank has branches, all funds of Government and local bodies are deposited with it. It has under its control and power of operation, currency chests which enable it to transfer easily, without any charge, funds from one place to another. Its remittances and inland exchange operations are consequently facilitated to a very considerable extent, and the margin of profit is also greater. But the still greater advantage of this power of transfer of funds is that the bank need not keep any large cash balance at any branch because it would be augmented without the least difficulty by taking money out of a currency chest and asking the head office or some other branch to put equivalent amount in the currency chest located at that place. By enabling branches to work with minimum cash balances and sending the excess to centres where it could be most profitably employed, it greatly increases the earning power of the funds. Every bank having a number of branches transfers funds from places where there is no demand for them to places where they can be profitably utilized, but it has to take cost of transfer into consideration which in the case of short period or temporary cash surpluses may be more than the benefit of interest which their investment may bring. In the case of the Imperial Bank, if a branch can spare a few lakhs, say for a few days or a week, it can send the amount to the head office or branches for investment and re-call the same whenever required, without having to pay a single pie for transfer, forwards and backwards, excepting possibly telegram charges.

In busy season banks enter into large cash credit arrangements with merchants, a sort of a running account under which they can draw funds up to an agreed limit whenever it suits their purpose and also repay according to their convenience, without any notice whatsoever. All banks excepting the Imperial Bank have to keep large balances to be able to meet demands in this respect, and it often happens that for days and days together people do not overdraw—or it may be that large amounts are repaid temporarily which may be required again any time during the next few days. The borrower only pays interest on the actual balance outstanding against him from day to day, and the banks are not able to employ temporary repayment of funds which have perforce to remain idle without earning any

interest. They cannot return the money to other branches which may be able to suitably invest it as call loan, etc., because of the cost of transfer on each occasion. The rate of interest which banks charge for cash credit facility has, therefore, to be based so as to allow for loss of earning in respect of temporary repayments and consequent idleness of funds. The position of the Imperial Bank, as explained before, is however different. Because transfer of funds costs it nothing, idleness of funds can be avoided, and, therefore, the rate of interest, so far as it is affected by this consideration, can be correspondingly lowered.

The Imperial Bank is able to command a very large amount of free money as bankers to Government, public bodies, railways and banks, and on account of the prestige that these connections bestow. It is true that such funds remain as current accounts and are withdrawable on demand, but in practical working the duration of these deposits can be more or less accurately foreseen, particularly in the case of Government and semi-Government balances where their respective budgets give sufficient idea of the time and amount of the incomings and outgoings. It is, therefore, easy for the bank to safely treat a portion of such funds as time (may be short term) deposits and correspondingly increase their remunerative character.

In the matter of fixed deposits the rates of the Imperial Bank are lower than those of other first class banks by at least one per cent. This is only possible because of its prestige as Government bankers and because certain funds, *e.g.*, trustee, can be only invested in this bank.

On account of the factors referred to above, *viz.*, power to borrow cheaply and to mobilize its funds for investment purposes without any cost, it should not at all be surprising if the Imperial Bank Rate for advances should be lower than what would be indicated by the normal market considerations. And as there can be no two rates in the market for advances of the same category, other banks are obliged to fix their rates on the same level as the Imperial Bank Rate. But the margin of profit in their case is much less. This is greatly noticeable in the case of mofussil branches of banks. The method of finance in *mandis* and grain markets is of the nature of cash credit, which on logical considerations of the problem should be more expensive than a time loan. Before the opening of the Imperial Bank's branches, banks could fix their rate of interest on the basis of cost of money. But now, because the Imperial Bank is able to charge a lower rate, mainly on account of the special advantages enjoyed by it, other banks have perforce to do the same. And it is seen that in several cases branches are not earning any profit, but are, on the contrary, losing. In formulating its credit and interest policy, the Imperial Bank, as, the premier credit institution of the country, should have shown better regard for the obvious dictum that the fixation of interest rates should not be divorced from the actualities and normalities of market conditions nor based solely on considerations of its unique position. Grounds for dissatisfaction at this attitude of the bank are further increased by the fact that at places where it has the sole monopoly of banking business it charges a much higher rate of interest which clearly proves that its lowering of interest rates at other places, although possible on account of its privileges, was not to a small extent influenced by considerations of competition and desire to snatch business through that means. Fortunately, signs in abatement of this policy are visible, but if it should be ever revived, it will compel other banks to curtail their branch business and lead to the Imperial Bank's monopolizing mofussil banking and ultimately bring about all the abuses which such a position creates.

The question whether the opening of new branches by the Imperial Bank has increased opportunities for the accumulation of savings or increased bank deposits cannot be considered unless the figures of the deposits of its different branches in the province, both new and old, are available. It may be that a deposit made by a person in a neighbouring branch of the bank has been withdrawn and put in the local branch after its opening—or from a distant branch to a nearer branch. Also it has to be seen whether increase in deposits, if any, is merely a transfer from other banks or represents new sources. The facility of obtaining deposit accounts of the Alliance Bank of Simla, on account of its taking over some of the latter's branches and the financial concession to the depositors on liquidation, did increase the bank's deposits, but that was not new money so far as general bank deposits or banking habit is concerned. Such increase has, therefore, to be offset when determining the net increase in the Imperial Bank's deposits. If no new sources of supply of savings have been tapped or habit to hoard has not been decreased, the opening of the new branches from the savings point of view is hardly justifiable. I do not know if the Bank has supplied sufficient material on these points to enable us to decide this question properly, in the absence of which it will be impossible to come to any conclusion.

The question whether any fresh credit facilities have come into existence as a result of the Imperial Bank's opening new branches, and the extent and nature thereof also require detailed information which does not seem to be available to us.

Some complaints have been made about racial discrimination on the part of the Imperial Bank's officers when considering applications for credit. Unless sufficient number of examples are presented and there are fullest possible opportunities for a thorough examination of all details pertaining to them, it will not be possible to form an exact opinion as to whether such complaints are real, and further, whether they are general or only noticeable in particular cases. It can, however, be safely said that the European managers of the Bank, on account of their methods of living and social habits, have greater opportunities of coming in closer personal contact with and forming correct estimate of character and credit of the European clients than in the case of Indians. And as personal information and estimate are most important when dealing with the credit needs of a customer, it is not impossible if there are some genuine cases of grievance.

It is not within my province to make any detailed suggestions as to what should be the future position or constitution of the Imperial Bank, but inasmuch as it will have a great bearing upon the savings and credit facilities in the province, I cannot totally ignore the question. It is clear that, if banking institutions are to progress, the present privileged position of the Imperial Bank must disappear. If the existence, working and experience of over half a century cannot enable the Bank to work and carry on its business without the continuance of these privileges, it should be far more difficult for other banks, which are much younger in life and less ripened in experience or which may be established hereafter, to hope for any success in their undertaking. It is urged that special disabilities are imposed on the working of the Imperial Bank, and some compensation for such restrictions is necessary. On analysing the charter of the Bank there is very little which would not be voluntarily observed by a prudent commercial bank. Further, if a bank law is introduced, which I strongly recommend, the freedom of all the banks will be affected, and they will not be in a more advantageous position than the Imperial Bank. They will be subject to State examination which will enable Government to know

more about their business than it is possible at the present moment in the case of the Imperial Bank's internal working. I have said in my note on the internal remittances how benefits of the currency chests should be available for all the banks of the country, by associating with it the various clearing systems, local, provincial, and all-India, and I have also given my views how the balances of Government and local bodies, apart from what could be directly lodged with the Reserve Bank and its branches, should be deposited. Giving of any monopoly to the Imperial Bank will restrict the development of banking in the province and in the country.

Exchange banks.

Branches of exchange banks in this province are only found in Cawnpore. They mainly devote themselves to the financing of foreign trade of the province. They take rupee deposits, which on account of their respectability, financial position, and great resources, are very large, and to that extent assist in the mobilization of the country's savings. They were the pioneers of modern banking and have aroused banking consciousness for which our best thanks are due to them. Whenever they have surplus funds over and above what they could invest in the export and import of merchandise, or its finance before or after these points, they participate in the inland bill business, or *hundis,* and as such the latter operations are conducted only as a subsidiary business and so far as they do not affect their main work.

The financing of the export bills is generally on the basis of letters of credit granted by the bankers of foreign purchasers, who undertake to the bank negotiating such bills to be responsible for their payment at maturity. The export bills are further rediscounted on arrival in London, which enables the negotiating bank to get back the money invested in them much earlier than what would be indicated by the period of the bills. The pressure of finance for the export bills is thus passed on to the London market. No such recourse is possible in the case of the import bills because there is no rediscounting of bills at present on the part of banks. If any bank resorted to the Imperial Bank to rediscount its bills, it would be immediately construed by the market as a sign of weakness. Possibly after the Bank of Issue is formed, this prejudice may disappear, and rediscounting of the bills may become a common practice of the market.

The Chartered Bank of India, Australia and China and the National Bank of India are the only exchange banks, out of the eighteen doing exchange business in India, that have branches in Cawnpore.

Joint stock banks.

The joint stock banks doing business in the province are not more than ten. Four have their head offices outside the province, and the remaining are provincial enterprises. The Allahabad Bank had originally its head office at Allahabad, but a few years back it was transferred to Calcutta so that the management and directorate of the bank could be in closer and direct touch with one of the biggest financial centres. The other non-provincial joint stock banks are : the Central Bank of India, the Punjab National Bank, and the Peoples Bank of Northern India. The head office of the first is in Bombay, and of the last two in Lahore. We have not any detailed figures of their business in this province, but it should be obvious to any observer

that all these four banks do considerable amount of banking business in the province, and finance movement of goods between this province and the rest of India. Their part in providing facilities for the accumulation of savings is equally important. Complaint is often made that the branches of these banks are more for the purpose of collecting deposits than for making advances, and that the surplus funds of the province are being drained to the port towns and other provinces. It would not be possible to decide this matter unless the complainants supplied us fuller information and the banks also disclosed their business figures. In any consideration of this question sight should not be lost of the fact that commercial banks cannot possibly advance on any and every type of security, *e.g.*, it will be too dangerous for them to have large commitments on landed property which locks up their funds and affects the fluidity of their assets. And although the banks in the beginning were not loathe to accommodate on mortgage of lands and buildings, experience has shown that it is unwise and against canons of sound banking. It should, therefore, be not surprising if the banks are not advancing against immovable property, or even insisting on the liquidation of those already made. But so far as the commercial business is concerned, I should think application for its finance receives due consideration. There are periods of rise and fall in bank advances, and there is nothing wrong if in the slack season funds are sent out of the province, to earn something rather than lie idle, and brought back in busy season. Branch banking would lose all its importance if it did not assist in the mobilization of money from places where it is not wanted to places that are in need of it. Further, my information is that in the busy season banks import large amount of additional capital into the province to finance the marketing and movement of goods.

Coming to the joint stock banks whose head offices are situated in the province, there are about six of them, the most important being the Benares Bank with a paid-up capital and reserve of about Rs. 17 lakhs and deposits about Rs. 75 lakhs. Others are small concerns. And the aggregate resources of all of them will not be more than a crore of rupees. Some of these banks have a few branches in the province, but rarely outside. It should, however, be not concluded that they do not assist in the finance of inter-provincial business. They have agency arrangements with other banks in this and other provinces, which enable them to participate in the internal exchange business, collection of bills and drawing of drafts.

Joint stock banks have complained about the severe competition of the Imperial Bank mainly due to its advantageous position. The exchange banks on account of their vast capital and older age command greater confidence and prestige than the Indian banks and are a serious competitor in the matter of deposits. And the power to lend depends upon deposits at the disposal of banks. If they do not get a fair proportion of the deposits of the country, their credit operations must suffer to that extent. Some way will have to be found to remove the handicaps at present experienced by them. Their function and purpose to finance the commerce and trade of the province are too important to be ignored; and being indigenous in character, they have far better and closer opportunities of contact with their clients, which is so important in credit concerns.

I have shown when dealing with the Imperial Bank how unjustifiable it is to continue its monopolistic position. The nature of its business is not at all different from what a prudent commercial bank normally transacts. And if the Imperial Bank is not able to conduct business on equal terms with the rest of the joint stock banks, in spite of its experience, traditions, and

prestige, extending over half a century of working, it should be much more difficult, and even impossible, for the latter to do any business in the face of the subsidised competition of the former.

It has been often urged that the State should intervene to ameliorate the position of the Indian joint stock banks. Government will not be justified in taking any such steps, or holding out any assurances about the solvency of any credit institution unless it has means of satisfying itself that such is actually the case. The joint stock banks cannot obviously expect any blind faith on the part of Government in their work, which unfortunately a series of failures in the past does not at all encourage. Any guarantee or assurance which Government may give to the general depositor as to the soundness of these banks without adequate scrutiny is utterly unjustifiable and may not be accepted. The experience in connection with the co-operative banks must clearly show that, when proper safeguards are not imposed, the danger of loss to the public is great; and even though Government may not assume any responsibility when preaching about the welfare of joint stock banks, their mere association would be sufficient to involve them in moral obligation of compensating the depositors in case of loss, nay, they would be forced to do so as they actually were in the case of failures of co-operative banks in Burma and the Central Provinces. If the joint stock banks want any public recognition or State assistance in the matter of removal of handicaps at present experienced by them, they should agree to some sort of control on their work and Government examination of their accounts. And if any undue competition is to be avoided between banks, there should be no *laissez faire* policy in the matter of bank registration. If any area possesses adequate banking facilities, no new bank or branch of a bank should be allowed to be opened. I have given some ideas on this matter in my note on "Savings and Investment Habit".

We should try to determine, if possible, the relative part and importance of the different classes of banks in the banking business of the province. It should be an important study and throw light on some of the banking problems. Any attempt in this direction is, however, obviously destined to failure unless banks co-operate with us and give full information.

There are only 29 places in the whole province, which possess modern commercial banking facilities, *i.e.*, where there is a branch of the Imperial, exchange or joint stock bank. The area of the province is 106,295 square miles, and, therefore, on an average there is only one place in every 3,543 square miles to which banking opportunities for the purpose of trade and commerce can be said to be available. The provision is extremely inadequate and shows what great a task lies before the province in this respect.

B.—Deposit of Government and semi-Government funds.

At present funds of Government and semi-Government bodies like the municipalities, local boards, improvement trusts, universities, etc., are required by law to be deposited with the Imperial Bank of India wherever it has branches, and at other places they are deposited in the Government Treasuries. In some instances, universities have been allowed to place short deposits with ordinary banks. In other provinces, notably Bombay and Calcutta, local bodies are also allowed to deposit their surplus funds with banks other than the Imperial Bank. The previous sanction of the local Government is of course necessary before any bank is recognised for such a privilege. But the amount of money of the semi-Government institutions which remains

with the Imperial Bank in the shape of current deposits, etc., is exceedingly greater. I can safely say that, so far as our province is concerned, the Imperial Bank is the sole banker in almost all the cases. We should be able to know either from the Imperial Bank or the local institutions what would be the aggregate of such balances.

Money which remains in the Government Treasuries merely remains idle until it is disbursed, and does not perform nor assist in the performance of any credit functions during the period of inaction. For the unification of credit policy and of the monetary resources it should not be allowed to be withdrawn from the market, and the continuance of separate Government Treasuries does not appear to be in the best economic interests of the country. The situation has considerably improved since the formation of the Imperial Bank and the opening of its branches, but still much remains to be done. We should ascertain what is the amount of cash balances in the Treasuries in the province. Also, we can determine what amount is now available to the Imperial Bank, which formerly remained with the Treasuries, and whether the funds thus obtained by that bank have been made available to the local markets or are employed in the extension of credit for the benefit of the province.

In other countries funds of local bodies are deposited with any respectable bank that may be doing business in its area. Introduction of a similar provision in the relative laws would avoid the necessity of their keeping their funds with the Treasuries. If general supervision, examination of banks by the State, and the bank law are introduced, risk of failure of banks and consequent loss of public money would be considerably minimised, and in course of time become negligible and even non-existent. Further safeguard may be provided by insisting on previous approval of Government before a local body can bank with any bank. With the progress of time the banks will be taking greater part in supplying credit wants of these institutions as is the case in other countries, and it is but fair that they should have also the advantage of their surplus funds. Further, deposit in local banks or local branches will tend to the augmentation of credit for local purposes as far as is possible, and consequently assist the local economic development.

It is not necessary that banks handling monies of local bodies should be called upon to lodge security. In the majority of cases, cash balances are not large. It is only in the case of bigger towns and cities like Cawnpore that their balance in banks may be a lakh or over. And banks keep much bigger amounts of private individuals, and commercial houses without giving any security, so that in all probability they will not agree to keep any accounts of local bodies if that would necessitate their lodging security. Such an imposition would be construed by them and the general public as a sign of weakness or want of confidence.

It is recognised by every important banking system that Government funds on account of their magnitude, importance and the prestige that they bestow, must remain at the disposal of the Bank of Issue or the Reserve Bank. The Central Bank's function is to control credit and currency in the best public interests, and it is necessary for the proper discharge of this function that Government who command large cash balances must keep their surplus funds with it. As, however, it is not necessary for the bank to have a large number of branches, in fact it would be cumbersome and costly, and it could easily supervise the country's financial position by stationing itself at the most important strategical point in the money market, i.

would not be possible for it to directly receive and pay Government monies excepting at places where it has branches. Arrangements will, therefore, be necessary for receipts and payments of cash on Government account at places where the bank has no branches. Establishment of separate Treasuries is against the best economic interest, of the country; the other alternative left is to entrust these operations to banks. Money deposited with banks remains available to the market. But in order that they might not employ Government balances for formulating a credit policy contrary to that of the Central Bank, the latter has an important voice in the matter of location and amount which can be deposited with any bank as well as in the matter of granting recognition to any bank. The Bank or the Government, at the request of the Bank, transfers amounts from one place to another as well as from one bank to another according to the requirements of its credit policy. In some countries, as in England, no security is asked from banks for handling Government money, but in others like the United States of America, deposit of substantial security is required for this privilege. All respectable banks, whether big or small, are treated alike when fixing these arrangements. Excepting the Central Bank there is no other bank which is given the monopoly of Government banking; nor are the agency arrangements of the Central Bank entrusted to one single bank. It would impose a serious handicap on the rest of them. The primary purpose of the Reserve Bank is not to earn profit, but to control credit and currency in the best public interests, and as such there is no harm in keeping at its disposal large free-of-interest funds which might otherwise be employed as a means of serious banking competition. But no such considerations exist in the case of other banks; and if monopoly is given or any differentiation allowed, it would decidedly create inequality in opportunities, scales being heavily weighted in favour of the favoured one. We should prescribe a uniform test for considering applications which request for the privilege of being depository of Government funds, and all those that answer to the test should be treated in the same manner, without any distinction or favour. Appointing the Imperial Bank as the sole agent of the Reserve Bank, as was contemplated by the old Reserve Bank Bill, will have the most disastrous consequences on the banking development of the country, as I have already shown in my other notes.

In a vast country like India, where banking is still in its infancy, it would be in the best public interests if security is taken from banks wanting to be depository of Government funds. The security may consist of Government bonds, debentures of land mortgage banks, or be of any other acceptable kind. Also to avoid administrative inconvenience different departments may be asked to deposit money in different banks. Where such a distribution is not possible the bank which is in the greatest need of assistance and/or which gives best consideration to the local credit needs, should be granted the privilege, provided it is otherwise fitted and qualified for the purpose and is able to give necessary security.

The privilege of handling Government monies need not necessarily be confined to joint stock or commercial banks. Co-operative banks should be accorded the same treatment. It is of course understood that they will have to submit themselves to the same rigid test as the other banks. Owing to the vast responsibilities involved in handling public monies and of the Reserve Bank in this respect, the authorities should be naturally strict when considering applications in this connection, but there should be no differentiation amongst those who are able to come up to the standard.

It may not be out of place to describe the system of deposit of Government funds in the United States, which appears to be the best fitted for adoption in our country.

At places where there is no federal reserve bank or its branch, Government approves of certain national banks which can be depositories of their funds. Any national bank wanting to be depository of Government balances has to make an application to the treasurer who makes necessary inquiries and obtains a report from its federal district bank. If the report is satisfactory, he approves of the application. The bank has to lodge collateral in the shape of Government securities, bonds of federal land banks or some other designated security up to an amount fixed by the treasurer. The Government funds with the national bank depositories are thus in a sense loans, secured wholly or partly by collateral, and the only advantage is that such loans are without interest. The banks do not give any interest on those balances, but continue to earn interest on the security they have lodged.

There are two kinds of national bank depositories, general national bank depositories and limited national bank depositories. The former are authorised to accept deposits for credit in the general account of the treasurer of the United States. Except in pursuance of special instructions from the treasury, no deposit of cheques or drafts may be accepted, but only deposits of cash and postal or express money orders. They are not authorised to maintain any collection account. The object in making this differentiation is that cheques could be conveniently sent by the revenue collector directly to the federal reserve bank which would collect them and credit them to the Government account. The general policy in the matter of designating and maintaining these depositories of public money is to have them at points where they are necessary to meet the requirements of Government officers for cash for pay roll or other expenditure. Funds are transferred to and fro from such depositories to the district federal bank whenever necessary. The limited national bank depositories can accept deposits only for credit in official checking account, of courts and their officers, post-masters and, in special cases, of other duly authorized Government officers. Cheques and drafts payable unconditionally in money may be accepted by such limited depositories. Further, maximum limits upon the amounts which they can hold are prescribed, beyond which it is penal for them to accept any money.

No. 43.

Note by Mr. P. J. Thomas as appended to the Report of the Madras Provincial Banking Enquiry Committee.

1. I regret that owing to fundamental difference of opinion on certain important points I am constrained to put in this note. As the time at my disposal is much too short, I shall make it brief. It is illustrative rather than exhaustive.

2. The two principal duties of the Provincial Banking Committee are (1) to collect accurate information on the financial agencies of the Presidency in their relation to agriculture, industry and trade, and (2) to make recommendations. The former is the more important because it is the foundation of the latter. The subjects covered by the enquiry are vast, and it is no easy task to collect accurate statistical information on those subjects for such a vast Presidency as Madras. Nor has the time at the disposal of the Committee been long enough; for, although the Committee was appointed in July 1929, active work by members of the Committee began only in January 1930. Indeed the two Revenue Officers appointed as Investigators to the Committee commenced work early enough, but their work was mostly confined to village investigations. If, as the Central Committee originally suggested, intensive enquiries were conducted in a few selected districts rather than in villages, it might have enabled us to get more comprehensive information and more reliable statistics on such subjects as marketing, rural indebtedness, and indigenous banking, which could not be properly surveyed in the course of village surveys. This has not been done, and the result is that, in my opinion, the facts and statistics we have at our disposal on certain important subjects are not adequate to enable us to draw safe conclusions. I shall illustrate this by taking a few important points.

I.—Total Indebtedness.

3. An attempt is made in Chapter V of the Report to estimate the total indebtedness of the Presidency. I am more concerned with the causes, forms, and incidence of indebtedness, than with the estimate of total amounts; nevertheless as the bulk of that chapter—the longest in the Report—is given to an estimation of total indebtedness, I feel justified in giving prominence to it. To my mind the conclusions drawn are not reliable, and if any such estimate is deemed necessary, fresh enquiries should be instituted for that purpose.

4. The estimate is based on the assumption that the average duration of mortgages is 3 years, and that, therefore, we could estimate the total existing mortgage indebtedness of any one year by adding up the total mortgage debt of the three previous years or by multiplying by three the total mortgage amount of any one of them. In this, the Committee follow the views of Sir Frederick Nicholson who in 1894 estimated the total indebtedness of the Presidency by multiplying by three the mortgage amount for one year (1891) on the ground that "if the average duration of mortgages with possession taken as one lakh, be taken as five years, and that of simple mortgages taken as two lakhs, as two years,

the average duration of all mortgages will be about three years. (Report regarding the possibility of introducing Land and Agricultural Banks, Vol. 1, page 270.) Whatever might have been the value of this three-year formula for the time when Nicholson carried out his investigations, its applicability to modern conditions is subject to grave doubts. The following factors, in my opinion, should be taken into account when making any such conclusion at the present time:—

(i) It may be assumed that of the mortgages with a prescribed term, the average duration is three years, but the great bulk of mortgages, especially in the dry areas, are of unspecified terms. The following table relating to simple mortgages registered in Srimushnam Sub-Registrar's Office during the years 1924-1929 is instructive.

Year.	Number of unspecified duration.	Number of specified duration.	Total.
1924	152	108	260
1925	167	83	250
1926	137	87	224
1927	148	85	233
1928	164	128	292
1929	124	64	188

The same is true of mortgages registered in the Sub-Registrar's Office at Ellore, which may be seen in paragraph 87 of the Report. This is confirmed by independent researches elsewhere in South India. Out of 1,226 mortgages in Mysore State examined by Messrs. D'Souza and Krishnaswami Ayyangar, as many as 764 were for unspecified periods.

(ii) The fact that the average duration of specific period mortgages is three years does not warrant the conclusion that at any given time the total existing mortgage indebtedness may be estimated by adding up the mortgages of the three previous years; for, in reality few mortgages are actually discharged on the expiry of the period specified in the document. In practice most mortgages run for a longer period than specified in the document, and so long as interest is paid regularly and the property does not depreciate, the mortgagee does not worry himself about it. This is true also of usufructuary mortgages, for a usufruct does not cease merely by the expiry of the term specified in the document. The document may be only for one year, but so long as the mortgage amount remains unpaid, the land will remain in the possession of the mortgagee. We may remember in this connexion that the bulk of mortgages are executed in favour of neighbouring landholders, who show no inordinate hurry to have the mortgage terminated.

(iii) In paragraph 90, details about renewals are given in support of the three-year formula, but this again does not help us very much, as we have no statistical information as to what proportion of the total mortgages of the same years and places were renewed. In practice, renewals take place mostly when interest falls into arrears or when the mortgagor needs a fresh loan. Only a fraction of the mortgages is actually renewed: in the great majority of cases mortgages remain unredeemed for many years and end in a sale of property by court-auction or by private

negotiation. According to an experienced zamindar who appeared before the Committee at Rajahmundry, 90 per cent. of the mortgages terminate only by the sale of land (Oral Evidence, page 50).

5. In order to be able to draw any reliable conclusions regarding mortgage indebtedness, we shall have to carry out detailed enquiries into the history of mortgages in typical regions in the Presidency. The usual information available in the Sub-Registrar's Office is not sufficient; we must trace the course of each of the mortgages registered in the last 10 or 12 years and then make our deductions. In 1927-28 a research student of the University of Madras made a study of the mortgages of ten villages in Satyamangalam taluk (Coimbatore district), and his conclusions do not support the three-year formula.

6. A careful study of mortgages seems to me absolutely necessary, not only for estimating the total indebtedness of the Presidency, but also because there is a complaint in the country that as a result of indebtedness land changes hands nearly every generation, and that tenancy is increasing at the expense of ownership in many districts of the Presidency*. These are matters of the utmost importance from the point of view of the Banking Enquiry, but the information we have gathered on the subject is quite insufficient.

2. Nidhis and Chits.

7. These are two of the chief indigenous financing agencies in the Presidency, and both require careful scrutiny, as complaints have been repeatedly raised about their constitution and working. The nidhis, in particular, are an important financial agency in some of the southern districts and the many failures that took place in the last ten years, and the transformation of several of them into regular commercial banks, call for a careful scrutiny of their constitution and functions; but this has not been done. The questionnaire contains no specific reference to them, and naturally there is little information about them in the written evidence. In my view, we have not gathered sufficient information about these institutions to make any specific recommendation, and, therefore, until such a detailed enquiry is carried out, I shall not be in a position to assent to any conclusions or recommendations concerning their present position and future working.

3. Marketing.

8. It is generally known that the orderly marketing of commercial crops in this Presidency is hampered in many ways, by middleman's charges and by the money-lenders' exactions. We have some indications of it here and there in our written evidence, but no systematic effort has been made to collect statistical information about this important subject, and further enquiry should be instituted if any safe conclusions are needed.

* See written evidence of Mr. D. W. Dodwell, I.C.S., Mr. Giriappa, Mr. V. C. Rangaswami and others.

9. Our information on marketing is particularly slender on the subject of cotton and tobacco. The Indian Central Cotton Committee carried out investigations at the Adoni area and came to the startling conclusion that cultivators are not under any obligation to sell to the lenders, and that they 'are not hampered by their borrowings in the disposal of their kapas'. We know that this is not true of the Bellary area, and how such difference should exist (if indeed it does) in the methods of marketing between Bellary and Adoni (within a distance of 40 miles) is a matter that calls for further enquiry. The information we have collected is not adequate.

10. Similarly about the marketing of tobacco in Chirala. In the memoranda submitted to the Committee by the Madras Central Urban Bank and by certain gentlemen of Guntur*, it is pointed out that the tobacco-growers of Chirala market their tobacco on very unfavourable terms owing to the monopolistic position of a certain tobacco-manufacturing company. Our attempts at getting information from the company proved futile, and although there is a paragraph about the subject in the report, I do not think that it fully brings out the facts of the case. This also requires further enquiry.

11. Not only for the purposes of the Banking Enquiry, but from the point of view of the agricultural and industrial development of the country, the subjects above touched upon deserve to be carefully studied. The best agency for making such enquiries is a Board of Economic Enquiry as suggested in Chapter I of the Report, and I recommend that such a Board may be set up without delay so that it may follow up the threads of the present enquiry and in order that the results of the further enquiry may be available before the Central Committee completes their deliberations.

II.—Recommendations.

12. I agree with my colleagues in regard to most of the recommendations, but I feel that I must go further than they on certain fundamental issues.

The Re-discounting System. (Chapters V, VIII, X and XI.)

13. The most important of them is in regard to the introduction of re-discount banking. The greatest defect of our banking machinery to-day is the wide disparity between the Imperial Bank's discount rate and the rate of interest at which the average merchant or farmer could borrow in this country. To my mind, a radical solution of this is needed, and that is only possible by the deliberate adoption and encouragement of the re-discounting system, which I proceed to describe in some detail below.

14. The present methods of raising short term credits in India, whether in agriculture, trade, or industry, are defective and cumbrous. For expenses during cultivation or manufacture loans have to be raised on high rates of interest on the strength of promissory notes or mortgages.

* Messrs. V. Venkata Punnayya (Banker and rice millowner and K. Sriramulu President, Guntur District Board), See also Mr. N. G. Ranga's written evidence.

Even if the produce is ready for marketing, it is difficult to raise loans on the security of the produce as there are no independent warehouses. Sales are generally effected on the 'open' account system, and, therefore, the seller has got to wait till the buyer is ready to pay up. The book account cannot be turned into liquid cash, and, therefore, money remains idle. Indeed 'produce' loans are available wherever the Imperial Bank or other joint stock bank has warehousing accommodation, but the condition that the goods must be kept in the bank's godowns is regarded as *infra dig* by most merchants of standing. The merchants, therefore, have to raise their loans by buying hundis from Multanis at high rates of interest or by borrowing on pro-note from the Imperial Bank. The double signature required for pro-notes by the Imperial Bank is generally not convenient for Indian merchants, and they, therefore, prefer the Multani shroff. The result is that adequate funds are not available, and whatever is got costs the borrower too dear. Such high costs and the high prices which they give rise to, prevent the expansion of business in the country. This is the fundamental defect of our financial machinery, and no advance is possible without remedying this.

15. In all advanced countries, there are ample devices by which short term credits can be raised at low rates on securities which are of a liquid character. They use negotiable instruments like pro-notes, drafts and bills of exchange to obtain advances, and as these instruments can be discounted and re-discounted before they reach maturity, monetary resources become mobile, and the price of money becomes reasonable. The fundamental defect of India is not that there is not enough money, but that it is not properly manipulated as to make its flow elastic. A well-conducted system of discount banking is, therefore, the proper solution for our difficulties.

16. Except in Great Britain discount banking is a recent growth. Even in the United States, where the system has lately become most developed in all its ramifications, there was a positive antipathy to discount banking before 1914. There were many banks operating in the country, but they were not connected with the central money market, and each bank depended upon local resources, and re-discounting of bills being limited, interest rates were as high as 10, 12 and 15 per cent. in some districts, while in towns much lower rates prevailed. The Federal Reserve Bank Act of 1913 remedied this defect by providing a national discount system, which enabled country banks to become members of the Federal Reserve system and obtain abundant re-discounting facilities. These benefits were extended not only to the merchant and the manufacturer, but also to the agricultural classes by enabling them to get their notes, drafts and bills re-discounted at the Federal Reserve Banks when accepted by a country bank, and by allowing such paper longer maturities (six and nine months) than enjoyed by commercial paper.

17. We have to develop on the same lines in India. We want a re-discounting system with a growing bill market; in order to create such a system we must modify our methods of raising short term credit and systems of marketing. Borrowing is now the bane of our financial machinery; it must be transformed into discounting, so far as all productive operations are concerned. Borrowing inevitably results in high rates of interest and high production costs; but discounting will enable bankers to advance more freely and at less risk as the security is a more fluid one.

18. The simplest case is the short term self-liquidating transaction, bills of exchange, foreign or inland, representing a sale or other genuine commercial transaction. It may be a sight bill or a usance bill; but in either case it will liquidate itself automatically. When such a bill is accompanied by the bill of lading or/and railway receipts and is accepted by the drawer's bank, it becomes a first-class negotiable instrument, and can be discounted and re-discounted according to the needs of the holder.

19. Secondly, there is marketing credit. With a view to helping in the orderly marketing of produce, whether raw or finished (*i.e.*, agricultural or industrial), banks in most countries now advance on non-perishable, readily marketable commodities properly stored in warehouses. Such paper (notes or drafts) when secured by documents evidencing ownership can be discounted with banks. The use of banker's acceptances in the financing of marketing of industrial produce has been long known, but it was only lately that agricultural produce was brought into the orbit of the discounting system; and this has reached the highest development in the United States of America, where the Federal Reserve Act makes special provision for the discounting of paper drawn for the purpose of orderly marketing; such paper may be created by any private individual and discounted at his bank, or if the person is a member of a co-operative society he could get the work done by the society. The Act has given special concession to co-operative marketing organizations in the matter by allowing them to draw paper of longer maturities than usual (*i.e.*, six and nine months).

20. Indeed, banks in India now lend on produce, but as goods have got to be placed in their own godowns and are not generally liberated in instalments, many merchants and agriculturists do not resort to them as freely as they might. Therefore, there is an urgent need for independent warehouses in this country at suitable centres so that the discounting system may be extended to agricultural marketing. In the interior this may be done mainly through the co-operative loan and sale societies, provided Government will make grants for the purpose. With produce in its godowns, the co-operative sale society must be in a position to create a negotiable paper, which could be discounted by the Central Bank or even by commercial banks. In the larger towns, independent warehouses are to be constructed by other agencies.

21. Could we go any further than the marketing stage in the creation of negotiable paper? In my opinion, we could, and we should. In the United States eligible paper, *i.e.*, the bills, notes and drafts re-discountable at the Federal Reserve banks, include not only paper secured by documents of sale or warehousing receipts, but also paper created for productive purposes by agriculturists, *i.e.*, for purchasing implements or raising crops or breeding animals; and for the special convenience of agriculturists, longer maturities have been allowed for such paper. Thereby financial resources of the country have been mobilized in such a manner as to serve the interests of not only commerce and industry but also of agriculture. Indeed there are difficulties in creating such agricultural paper, due chiefly to agriculture's dependence upon monsoons and other natural forces and due also to the fluctuations of prices of raw products. Such difficulties have been experienced in the United States, but the thoroughness of organization characteristic of the Federal Reserve system has surmounted all such difficulties.

22. Indeed the introduction of the discounting system into agricultural finance in India is beset with even greater difficulties, although many of them may be avoided by proceeding through safe channels and by measured steps. Considering the backward character of our agriculture, and the illiteracy, improvidence and unpunctuality of our farmers, I do not think that agricultural paper could be made acceptable to commercial banks, when offered by individual farmers as in the United States of America, but I do maintain that agricultural paper accepted by the co-operative primary society and the central bank should be eligible for being discounted to a limited extent at branches of the Imperial Bank or other joint stock banks. At any rate, when the Reserve Bank is founded, such paper must be readily re-discountable by its branches within a prescribed maximum limit. There is nothing very revolutionary about this suggestion. Already the Imperial Bank has allowed the co-operative central banks to create an overdraft account on the strength of the notes of the members of primary societies. That privilege is now being withdrawn, not because this has resulted in any loss, but because of other reasons. When a Reserve Bank is created, as I hope it will be, a certain proportion of its funds may be set apart for re-discounting agricultural paper proceeding from primary societies and accepted by the central banks. One condition of such facilities being extended to agriculturists is that the crops should be hypothecated by those who avail themselves of such credit, and godown facilities should be provided for keeping produce when delivered.

23. In the case of agriculturists, whose farming business is proceeding on business-like lines, and who, by their stability and standing, deserve easier credit facilities, I do not see why the commercial banks should not go a step further and accept their notes on condition that their crops are hypothecated to them. But great caution is necessary in this matter, and perhaps it would be best to commence this after a fair degree of success has been achieved in the discounting of co-operative paper. If any steps are to be taken in this direction, I recommend that it may be on the lines of the Agriculturists Credits Act (1928) of England.

24. In India to-day bills are used more in foreign trade than in inland, and that is because discounting facilities are more abundant in the former than in the latter. The transmittance hundi is popular enough and has always been known, but the great majority of hundis are finance bills which have no specific commercial transaction behind them. The proper trade bill must be created by giving all possible facilities for their discounting. The duties on bills must be reduced, and the use of bilingual bills allowed. The standardization of hundi forms is also necessary as stated in Chapter X of the Report. A concentrated effort must be made for the education of our businessmen in the use of bills.

25. There is no reason to think that this is too advanced a step for India. Until the introduction of the Federal Reserve system (1913) in the United States, the country bankers looked with suspicion upon re-discounting system. They regarded it as "a sign of weakness, as a flag of distress, and would not resort to it except as a last resort". Yet, when the Federal Reserve system came in, the country banks threw away their suspicion and availed themselves of re-discounting facilities, and the result is unprecedented mobility of credit and an unparalleled expansion of trade and business.

26. If such facilities for short term credit are to be availed of by the Indian merchants and agriculturists, they must mend their ways. The merchants must adopt more systematic modes of business, and the farmer must improve his methods of cultivation and keep regular accounts of his costs and receipts. A more reliable supply of water is also a prime necessity, which calls for organized effort in the matter of irrigation. Without improving our methods substantially, it will not be possible to make the radical change in the methods of obtaining credits sketched above, however clearly we might perceive the superiority of the credit methods in use elsewhere. Hence the importance of carrying through a carefully devised developmental policy as a preliminary to the introduction of improvements in the financial machinery of agriculture.

Agricultural Methods (Chapter V).

27. Our traditional methods of agricultural production are not calculated to increase the standard of living of the ryot. Our agricultural methods must be so modified as to maximise the quantity and value of the crops raised and thus put more money into the hands of the ryot. As Mr. G. R. Hilson, the Director of Agriculture, points out in his memorandum to the Committee, one fundamental defect in the system of cultivation in the Presidency is the inordinate value attached to swamp paddy cultivation. As a rule 'garden' crops are more profitable than paddy, and it has the additional advantage that the land need not be continually under water. The popular view which looks with suspicion upon the substitution of food grains for 'money' crops is not based on any proper understanding of the true economic interests of the country. There are parts of the country where paddy is the most economical crop; but to turn land which would yield a better return under a commercial crop into paddy land by expensive irrigation projects is not calculated to enhance the prosperity of the country, nor improve the financial position of the ryots. The raising of commercial crops must be positively encouraged, and irrigation projects should be directed to such purposes also.

28. Holdings.—An 'economic' holding is the prime essential for profitable tilling. Where holdings are minutely sub-divided and fragmented into bits, there cannot be any incentive to intensive culture. That subdivision is a grave evil in the Presidency and that the majority of holdings have become 'uneconomic' is clear from the figures quoted in paragraph 31 of the Report. The accompanying tendency to fragmentation is also a great hindrance to profitable cultivation. In paragraphs 32—35 of the Report it is maintained that fragmentation is not a serious evil in this Presidency. Opinions differ on this point, and as no systematic enquiry has been carried out throughout the Presidency we are not in possession of adequate data to form a judgment in the matter. At the suggestion of Dr. Slater, University Professor of Economies, the Madras Board of Revenue made an enquiry in 1919 and although the Board thought it impracticable to interfere, they did not deny that fragmentation was increasing in the Presidency. It may be conceded that this evil is not so pronounced in Madras as in certain other provinces in India: nevertheless it seems to be necessary to enquire into the extent and incidence of fragmentation in the Presidency and devise proper remedies to combat it. It might also be useful to enact legislation for making holdings impartible beyond a certain minimum size.

MARKETING AND CO-OPERATION. (CHAPTERS VIII AND XI.)

29. The re-discounting system sketched above supposes a more systematic marketing machinery than is now existing in the country. Marketing is the crux of the problem. At present marketing is carried on by a chain of middlemen, and the links in the chain are advances at high rates of interest. The ryot borrows from the local sowcar-shopkeeper who in turn borrows from the dallal in the town, and the dallal generally raises his capital from Marwaris and other money-lenders. The ryot and perhaps the local shopkeeper lose also by false weighment, by heavy commissions and by the forced sale of produce in a congested market. This system of financing marketing operations must be replaced by a system, of short term credits which will keep money more mobile, bring down the rate of interest and enable the owner of the produce to market at the most auspicious time and at the highest available prices. This is only possible by the creation and discounting of negotiable paper at every stage of the transaction as sketched in the previous section.

30. A proper co-ordination of credit supply with marketing is the *sine qua non* for such improvement. The sowcar knows the need for such co-ordination, and the exporting firms know it too, but the co-operative movement has only recently come to realize that unless marketing is controlled, the ryot will have to sell his produce at a loss, and the loans made to him by the co-operative society may not always be readily repaid. This recognition has resulted in the opening of co-operative loan and sale societies, but they have not yet got the necessary equipment (*i.e.*, godowns, trade connexions, trained businessmen, etc.) to function well, nor is their work properly co-ordinated with that of the credit societies. All this must be radically changed. All short term loans must be the first charge on the crops, and where there are co-operative godown facilities, the produce must be delivered to the co-operative sale society to be prepared for the market and sold in the proper manner.

31. The credit society must also supervise the utilization of its loans, supply the necessary expert knowledge for efficient production, and insist upon the ryot keeping regular accounts of his receipts and outgoings. If all this can be done—and it is only a matter of time and organization—agricultural paper will become readily discountable, and the rigidity which now characterizes agricultural finance will be diminished. The co-operative society first appeared on the scene as a lending institution, and this was the fundamental defect which resulted in overdues and irregularities. If the movement is to succeed, it must place marketing and thrift on a par with credit supply. This is our greatest need to-day.

32. The sale society must work as a regular business concern with the salaried assistance of trained businessmen, and must have expert guidance in regard to the preparation of the produce for marketing, *i.e.*, cleaning, curing, drying, decorticating, grading and so forth. The society should raise credits with commercial banks on the strength of warehouse receipts and should market the produce by instalments in order to avoid the evils of a congested market.

33. Having established sale societies at suitable centres and having co-ordinated their work with that of the credit societies, we must federate

them in each economic region by forming central selling organizations, which will negotiate with buyers for the sale of produce. This may lead to a suitable system of pooling as in the United States of America and Canada. It requires intelligent organization and efficient management which can only develop gradually in a country like ours which has been long accustomed to get such work done for it by others.

34. Pooling may take time to develop, and it is not practical in all lines of produce, but the provision of regulated markets should give our producers considerable relief for the present. Organized markets will result in fair dealings between the sellers and buyers; the full competitive price will be available to all; cheating in weighment could be avoided, and the vexatious mamuls may be done away with.

35. Even where the big exporting firms operate, there are various inconveniences felt by the producers and merchants dealing with them. They often give crop loans on the stipulation that produce is delivered to them. With the purest intentions in the world, this system may not always work to the best advantage of the seller. The actual sale is not always effected in the presence of the seller, and opportunities are not always available to him for satisfying himself that his produce had obtained the 'top' prices for that grade of produce. In every way a system of regulated market where produce is sold by periodic auctions and whose operations will be controlled by a Board on which producers will be represented, will be a great improvement on the present system. The Royal Commission on Agriculture has strongly recommended the establishment of such markets. The matter was taken up by the Madras Provincial Cotton Committee, and as a result a Bill is now before the local Legislative Council. Many such markets are necessary in the Presidency for cotton, oil-seeds, tobacco, hides and skins, tea, coffee, copra and rubber. India to-day is one of the principal exporters of tanned hides and skins, and Madras is responsible for the bulk of the Indian produce, and yet we have no local market for this important produce, and the exportation of it abroad is attended with many difficulties connected with finance. A hides and skins market in Madras is, therefore, an urgent need. Similarly, a market for tea, coffee, copra and rubber is needed at Cochin which may thereby come to compete with Colombo as a centre for estate produce. Serious difficulties are now felt by producers, especially by the smaller estate owners, in the marketing of their produce. The European tea and coffee planters whom the Committee consulted on the matter agreed that a market at Cochin is a very promising idea.

36. Marketing surveys.—It is of the greatest importance that surveys should be made of market conditions in the Presidency. As the Royal Commission on Agriculture has put it "the collection and study of exact information on the question must necessarily precede the formation of an effective policy for the improvement of marketing". (P.-408). To carry out such surveys, persons trained in economic enquiries are needed, and, therefore, the Commission recommends that the Universities and bodies like the Punjab Board of Economic Enquiry must collaborate in the matter.

37. In chapter XI of the present Report (paragraphs 209-10), it is stated that the co-operative institutes might carry out such surveys. These institutes are primarily schools for the training of co-operative hands, and

many of their teachers may not have the time and the training needed for such investigations. In any case, isolated efforts by these institutes are not likely to be of much avail, but if they work under the direction of a central authority like the Board of Economic Enquiry suggested in chapter I, they can be made useful local agencies for the collection of information and the dissemination of enacting intelligence.

38. The collection of information is not sufficient; it must only be a preliminary step to practical work. The Board must aim at providing advice to the agriculturist by studying world market conditions and making seasonal forecasts. It must publish 'outlook', reports every six months, and 'readjustment' studies enabling 'sick' areas to readjust production to the needs of the market must also be carried out. In short, it must be like a laboratory or observatory, and must do all the work done by the Bureau of Agricultural Economics maintained by the Ministry of Agriculture in the United States.

39. Industrial banking.—In paragraph 257, there is a statement as follows:—"There is no industrial bank at present, and there does not appear to be any likelihood of one being formed in the near future." I disagree with my colleagues on this point.

40. If there is need for industrial banks to grant long term loans to industries—as I think there is—it is certain that they will not grow spontaneously. In Germany and Japan, where such banks exist, they were the result of active State help. There seems to be need for an industrial bank in South India at the present time, and I recommend that it may be started under State supervision and control. It might be possible to harness the nidhis to industrial investment, but the matter requires further consideration.

Regulation of Banking (Chapter XV).

41. It appears to me that the Indian Companies Act is not adequate to control the operations of joint stock banks nor does it sufficiently safeguard the interests of the public that deposit and deal with them.

42. We have not made any detailed enquiry into the financial position and stability of joint stock banks in the Presidency; yet we have enough evidence to indicate that the smaller of them have more or less neglected to build up adequate reserve heads in their anxiety to declare good dividends, and that the proportion of cash and securities held against demand liabilities is generally inadequate to protect them and their depositors against possible run. The Indian Companies Act makes no provision for such requirements; nor has the Registrar of Joint Stock Companies who administers the Act adequate powers to scrutinize the stability of banks. Indeed there is provision for audit, but the kind of audit that is now insisted on is not sufficient to safeguard the interests of the shareholder and the depositor. I regard this state of things with some concern. In a country like India where the joint stock system of banking has not yet taken firm root, and where the public are not yet sufficiently, experienced in the technique of banking as to scrutinize a balance sheet, it is incumbent on Government to act as guardians of the public and legislate for the regulation of banking. Even in countries

like the United States of America and Canada where banking has developed considerably, special enactments exist to regulate banking. It is possible to provide for this in the Indian Companies Act, but as there are banking concerns other than joint stock to be regulated, and as it is proposed to bring them also within the banking mechanism of the country, it might appear preferable to have a separate enactment. I recommend that those nidhis which deal with non-members must also be brought within the pale of the new enactment, as they stand in need of regulation as much as the regular joint stock banks.

43. The new Act must also insist on banks restricting themselves to what is properly considered banking business. Loans should not be granted by a bank on the security of its own shares. The rights and obligations of bank directors must be defined by law. A definite relation may be prescribed beween subscribed and paid-up capital and a minimum paid-up capital must be insisted upon before a bank commences operations. Such minimum must vary according to the nature of business and the field of operations of the new concern. There must be clear-cut rules about the building up of the reserve fund, and the form and manner in which liquid assets should be maintained. Audit must be more independent than it is at present, and although I would not suggest that Government should directly undertake it, I recommend that until a society of qualified auditors arises, the Provincial Government might be empowered to prescribe rules for the proper auditing of bank accounts.

44. *Banking education.*—The facilities available for banking education in the Presidency are not adequate. Banking and currency is a special subject for the B. A. Honours Course in the University, and the subject comes to a certain extent into the B. A. Pass Course as well; but these courses are not adequate to give specialized training in advanced banking, theory and practice. The proper degree course in which such a training could be given is the B. Com. Such a degree has been recently instituted in the University, but no provision has been made for preparing students for the degree. In these circumstances I recommend that a college of commerce be instituted in Madras by the joint efforts of Government and the University.

P. J. THOMAS.

29th April 1930.

No. 43.

Statement by Sir Basil Blackett, K.C.B., K.C.S.I., Late Finance Member of the Government of India.

The acceptance credit, and its application to trade in India.

In the face of world competition India cannot afford to overlook any improved method of handling her annual production of crores worth of agricultural and other commodities, most of which at one time or another are carried on credit. India already makes use of the sterling acceptance credit, can she use the rupee acceptance credit ? There is a well-established market in Calcutta in the unaccepted sterling bill. But the drawing of bills in rupees on first-class houses has not been developed and the present market in the hundi or rupee bill or promissory note is very restricted.

The expansion in the volume of " Acceptances given on account of Customers " disclosed by the balance sheets of banks in London and New York affords an indication of the increasing advantage taken of this method of finance in the two principal money markets of the world. In America, which for years had lagged behind Europe in adopting the acceptance, an enormous growth in their use has been witnessed in recent years, and especially since the Federal Reserve Act came into force. The obtaining of the " trade acceptance " in connection with goods sold is canvassed by the salesmen of the wholesale houses almost as rigorously as the sale of the commodities themselves. The " trade acceptance " has attained such an advanced state of development that it is now operative between the retailer and his customer, and is effective in reducing to a minimum the amount of frozen capital in a business, and in rendering " all good accounts " the equivalent of cash in the bank.

In London several kinds of bills (acceptances) are dealt in. The two main classes are the Prime Bank Bill and the Trade Bill. The former is accepted by a bank or a merchant banker for a third party, while the latter is accepted by the actual buyer of the goods. The foundation of the English acceptance market is the bill drawn on, and accepted by a banker, or Acceptance House, the underlying transaction representing a movement of merchandise for which the bill serves to provide the finance. If the acceptor's name is a " prime " one, such a bill will command the freest market and the lowest rate of discount. The laws governing the handling of these matters by the banks are not strict, but the customs are rigid, and the banks adhere implicitly to the principles indicated by the Bank of England in its policy of control, along the lines of which a similar control has been formulated and is exercised by the Federal Reserve Board in America. The Bank of England does not buy acceptances if payable out of the country, and all bills purchased must bear one approved British name beside that of the British acceptor.

In Great Britain, and to a lesser extent in Germany, the bankers' acceptance, or bill accepted by a bank, is the most sought after and used form of closing credit. In France the individual firm's acceptance, or trade acceptance, is the one in most common use. These acceptances must bear three names, of whom two must be residents of France, of good financial standing, to be discountable at any of the five hundred odd branches of the Bank of France. Private banks buy two name acceptances freely, and by endorsing them can re-discount them at the Bank of France in a similar manner to

re-discount of trade acceptances in the United States by member banks with Federal Reserve banks. Private banks' charges for acceptance vary round one-quarter of 1 per cent. for three months.

Before the war Germany developed to a high degree the acceptance principle in settlement of her trade obligations, both domestic and foreign. The trade bill, or "Wechsel," is in use in practically all domestic settlements between buyers and sellers, in which a banker does not intervene to make a bankers' acceptance, and the buyer takes the debt very seriously, for under certain conditions he is liable to imprisonment for not living up to his acceptance obligations. The chief activity of the Reichbank was discounting these trade bills, and a very active and free market is maintained at all times for all classes of good acceptances.

The procedure of practically all commercial nations resembles that obtaining in Great Britain, France or Germany, and may be described by saying, "they are on an acceptance basis". In each country slight modifications of plan, method or detail have arisen to meet the requirements of people and trade. In the U. S. A. the Federal Reserve Board has formulated its procedure as follows :—

Definition.—A Bankers' Acceptance, within the meaning of this regulation, is a bill of exchange of which the Acceptor is a Bank or Trust Company, or a firm, person, Company, or corporation engaged in the business of granting Bankers' acceptance credits.

Eligibility.—To be eligible for purchase, the bill, which must have a maturity at time of purchase of not more than three months, exclusive of days of grace, must have been drawn under a credit opened for the purpose of conducting, or settling accounts resulting from a transaction, or transactions involving :—

(1) The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries, or,

(2) The shipment of goods within the United States, provided the bill at the time of its acceptance is accompanied by shipping documents, or,

(3) The storage within the United States of readily marketable goods, provided the acceptor of the bill is secured by warehouse, terminal, or other similar receipt, or,

(4) The storage within the United States of goods which have actually been sold, provided the acceptor of the bill is secured by the pledge of such goods, or it must be a bill drawn by a banker or bank in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange.

Evidence of eligibility.—A Federal Reserve Bank must be satisfied either by reference to the acceptance itself, or by evidence produced by the acceptor that it is eligible for purchase.

Statements.—Bankers' acceptances, other than those accepted or indorsed by member banks, shall be eligible for purchase only after the acceptor has furnished a satisfactory statement of financial condition in form to be approved by the Federal Reserve Board and has agreed in writing with a Federal Reserve Bank to inform it upon request concerning the transactions underlying such acceptances.

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, has further determined that a bill of exchange or acceptance, to be eligible for purchase by Federal Reserve banks must comply with the following conditions :—

(*a*) Must not have been issued for carrying or trading with stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

(*b*) Must not be a bill the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, building, or machinery, or for investments of a purely speculative character.

(*c*) Must have been accepted by the drawee prior to purchase by a Federal Reserve bank unless it is accompanied by shipping documents, or by a warehouse, terminal or other similar receipt conveying security title.

(*d*) May be secured by the pledge of goods or collateral.

The Federal Reserve Act stipulates that a bill to be eligible for purchase in the open market by a Federal Reserve bank must be based directly or indirectly upon a *bona fide* merchandise transaction involving either domestic or foreign trade, and must also be limited in usance. A foreign draft to be eligible is not permitted to run more than 180 days, the period having been increased from 90 days, which remains the maximum usance of eligible domestic acceptances. Those acceptances created by an import or export shipment are foreign bills, and those arising from internal shipments are domestic. In addition, there are limitations placed upon the amount of acceptances which member banks may have in the market.

The London market is free from such control, and consequently can absorb acceptances regardless of their tenor or the reason of their existence. The volume of bills which one bank can have in the market is limited only by the opinion of the market itself, since if the supply of paper bearing any particular name is considered excessive, buyers will discriminate against such bills when discounting them.

The manner in which an acceptance credit works may be shortly described as follows :—If a banker has pledged himself to honour acceptance credit drafts upon presentation, the drawer of the bills knows that he will have no difficulty in disposing of them in the discount market after acceptance. They may be sold directly to the bank opening the credit, or may be offered for sale to another bank or to a discount company. In any event, the actual funds which are received come from an outside source, that is, the holder who has purchased the paper in the open market, instead of such finance being the subject of individual arrangement between the merchant and his own particular banker.

For the sake of example, let us assume that Rs. 1,00,000 in drafts at 90 days' sight are drawn under one of these credits, and that the drawer sells them in the discount market at a 4 per cent. discount rate, thus securing cash in the amount of Rs. 99,000. One day prior to the due date he must give the accepting banker his cheque for Rs. 1,00,000 plus probably ¼ per cent. commission, amounting to Rs. 250, or for a total sum of Rs. 1,250 more than he received at the time of discount almost three months earlier. The difference is the merchant's cost for the financial assistance rendered him, and is equivalent to a flat expense of 1¼ per cent. or 5 per cent. on a per annum basis

If this is more than some other form of borrowing costs him, he naturally adopts the less expensive method. Knowing the prevailing rates of discount for the different kinds of accommodation and the commission charged by the banker, he will have no difficulty in calculating which is the cheaper method of obtaining his finance.

There are times when the exporter has to store merchandise destined to foreign buyers while awaiting an opportunity to ship it abroad. It is not to his advantage to be forced to bear the financial burden involved in the investment of his capital in such material, for, to the extent that he must do so, the volume of his business is restricted. He accordingly approaches his banker with the request that an acceptance credit be established in his favour which will permit him to complete his shipping arrangements and subsequently effect clearance of the goods from the country. The banker considers the matter in the same light as an application from an importer and accommodates his constituent on terms commensurate with his credit standing, the nature of goods, etc. The exporter who is highly regarded as a credit risk will be able to get what he requires on an unsecured basis, even though the material has not been purchased by importers overseas but is held in warehouse awaiting the receipt of orders from foreign customers. Others will find that their bankers require security in the form of warehouse receipts evidencing the storage of goods and vesting in the banker the control of the goods in question, while others, in addition to fulfilling the above requirements, will be asked to furnish their bankers with satisfactory evidence that the merchandise is actually sold to purchasers abroad. It should be added that bills involving renewal, *e.g.*, for carrying commodities in store for long periods, are not favourably regarded.

If a specific shipment involves an amount of Rs. 1,00,000 worth of cotton, the prospective shipper, having secured an acceptance credit, draws for that sum. During the life of the draft he is able to send the goods forward, and consequently he is in a position to draw an export draft on his customer and offer it for sale to his banker. The proceeds of the sale of the export draft are utilized to liquidate his obligation to provide funds at the maturity of the rupee draft to which the banker has given his acceptance under the credit. In some cases the credits may be for the full amount, but the general practice is to require margin on the local sales price.

Could not the above principles be made to serve in providing the finance of the cotton crop from India, which requires extensive accommodation during the entire season, pending such actual time as shipments are made and sterling or other foreign currency sold to the exchange bank ? The system in vogue at present necessitates the budgeting of finance well in advance of the season, and the merchant must often contract to use a stipulated amount of accommodation by way of cash credit at a high average rate of interest throughout the period, with the added condition that interest will be charged on at least half the maximum amount of the loan, whether fully availed of or not. The inelasticity of this system must be felt as a hardship by the cotton exporting community. It is rather as if a Water Board, fearing a draught next summer and a consequent heavy demand for water, were to announce in November that it would supply water henceforth only to those householders who were prepared to contract in advance for large supplies on condition that at least half the stipulated amount would be paid for, whether consumed or not.

The smaller merchant, like the householder occupying premises for a limited period, requires facilities which will enable him to obtain his requirements in such quantities and at such times as he actually needs them, and the acceptance credit would permit of his finance being obtained on these terms, all that

is necessary being the means for the disposal of the acceptance after issue by the bank. But, as with every other commodity, the commodity itself must first appear, and a market for it will follow as a natural consequence. If the prospect of business once appeared, the establishment of one or more acceptance houses would not be long delayed.

The acceptance credit can be readily adapted to other export commodities. It can also be made to assist the importer. Many an importer finds that conditions arise in domestic trade which make it absolutely impossible for him to turn his imported purchases of merchandise immediately into cash. He must, however, pay the foreign exporter in accordance with the terms of sale, or meet the import drafts when they fall due, in spite of problems which may arise in connection with the sale of the goods. An importer faced with a situation such as this will find an acceptance credit of the greatest value to him. After arrangement with his banker, he will draw his drafts under the clean credit, discount them in the market, and utilize the proceeds to meet the original import drafts. It may be, and generally, is, necessary for him to use a portion of his own capital in the operation, for here again a margin is required by the banker. Thus far the merchant has merely exchanged an old debt for a new one. The respite granted him through the medium of the acceptance credit draft should, however, enable him to sell the merchandise and put himself in a position to meet the bank draft at maturity. Or he may be granted another acceptance credit for a lower amount by way of a partial renewal for a further period of three months, though, as already stated, renewal bills are not generally regarded with favour.

No. 44.

Statement of evidence submitted by Mr. F. E. Dinshaw.

Q. 1. It has been suggested that for the financing of industry for purposes of additional block or extension, or for taking over a period of losses common to the trade as a whole and through world causes, debenture issues are the best form. Please give your views on this subject.

A. I am unable to say 'yes' or 'no' to this question. In my opinion it entirely depends on the special circumstances of each company how the cost of an extension or the amount required for tiding over a period of losses should be met. If a company owns both its fixed and liquid capital (by the latter of which I mean reasonable working capital), I see no objection to a third of its fixed capital being in the form of debentures. In times of great stress perhaps this rule may be relaxed, and the maximum amount of debentures may be increased to one-third of the entire capital, both fixed and circulating, which is intact and represented by good assets. If State aid is necessary to issue debentures under the above conditions and to the above extent, I am respectfully of opinion that it ought to be forthcoming.

Q. 2. What period would you suggest for such debentures, *e.g.*, five years or ten years, and what method would you provide for repayment?

A. The period of the debentures may be anything from 5 to 10 years to meet the requirements of each individual case. There ought to be a sinking fund to pay off the debentures, and a part of the annual profits ought to be expressly ear-marked for service of the sinking fund. A short term debenture loan and a sinking fund are not attractive feaures when the security is good and *vice versa.*

Q. 3. What should be a reasonable proportion of the value of 1st debentures to the block value? Should not the market value of the block be taken into account for the safety of debenture holders?

A. The total issue of the debentures should not exceed one-third of the value of the block, such value to be equal to replacement cost less depreciation and an additional sum for the risks of obsolescence where the usual depreciation is not sufficient for this purpose. Where the market value of the plant is less than the figure arrived at by this method, and this happens often, the debenture issue should not exceed one-third of the market value. Where a company has to depend entirely on borrowed money for its working capital, even the above rule may not be safe.

Q. 4. It is said that debenture issues are not popular in Bombay as they are in Calcutta. Would you kindly say if this is a fact, and if so, what the reasons are for this difference as between Bombay and Calcutta?

A. I am not aware that debentures are not as popular in Bombay as in Calcutta. Some English capital is invested in Calcutta in debentures at a low rate of interest. This may be explained by the fact that the security was considered very safe and the investment was made at a time when the rate of interest was low. Subject to this, and subject to the fact that debentures of a prosperous undertaking may now-a-days be more readily available in Calcutta than in Bombay, I do not

agree that debentures are less popular here than in Calcutta. Debentures charged on good undertakings command a very good price here. When there is a very large issue of debentures, the underwriters may be left with a large percentage of them on their hands, but this is only temporary, and in course of time they are all absorbed (without any loss to the underwriters) and quoted in the market here at a price which shows good appraisement on the part of the investors of the value of the security and its terms. I admit debentures of cotton mills in Bombay are not popular, but this is entirely due to the low state to which the industry has fallen. My own opinion is until the proserity of Bombay waned, debentures were more current here than in Calcutta. I have known of Calcutta ventures getting their debenture capital subscribed in Bombay, but not *vice versa.*

Q. 5. It is said that debenture issues are not popular in India. Is there anything, which militates against their popularity? Do you think the initial and transfer charges and the stamp duty have anything to do with that?

A. I have not sufficient experience of India generally to answer this question. The stamp duty on debentures and transfers of debentures has become very onerous, and this certainly affects their ready negotiability. The stamp duty on a debenture transferable by endorsement or by a separate instrument of transfer is ¾ per cent. On each transfer there is an additional duty of ¾ per cent. In the case of bearer debentures, there is in the first instance a duty of 1½ per cent. Formerly, bearer debentures were not popular on account of the risk of loss, but now they are getting more in vogue as there is no additional duty to be paid on each transfer.

Q. 6. Do you think the establishment of holding companies or investment trusts is feasible in India? Has such a thing been attempted? Could these be established without any form of assistance from Government? Could banks play any part in this matter?

A. I see no reason why investment companies should not be as successful in India as in other parts of the world. Judging by the course of events on the Bombay Stock Exchange, I should say they would be very successful. Shares and stocks are often quoted at much higher or lower prices than the intrinsic value of the scrip, and the prospects of the trade or industry justify. There are constant bull and bear raids, and these affect not only speculative securities but others which do not fall in that category. The operations of sound investment companies will have a steadying and beneficial effect. To inexperienced or small investors they will prove a boon. There are a few private investment companies in India, but I am not aware of any large public company. The management of such companies must be in the hands of experienced and cautious men who must also be men of great probity and command the confidence of the public. In collaboration with investment companies outside British India the idea of floating a public investment company in India has been more than once considered and the only objection that has weighed with the would-be promoters has been that under the Indian law an investment company will be paying two super-taxes. For the encouragement of investment companies I respectfully submit that the law should be altered so that they at least may not have to pay a super-tax. Since the Indian public may not generally be

familiar with the advantages of an investment company, I beg to suggest that one should be floated under the supervision of Government. If necessary, a part of the capital of the company may be also subscribed by the State. The board of directors should be carefully selected; it may include an officer of the State, one of the Managing Governors of the Imperial Bank, and some business men of outstanding ability and integrity. The constitution should include carefully considered rules as to the investments to be made and the limits for each class of investments. The expenses of the company must not exceed the very small percentage on the capital and reserves within which investment companies in other parts of the world have to work. There is no reason why before now an investment company on sound lines should not have been floated and become a success. Since, however, this is so, if the State were to take the initiative in the matter or help those who are prepared to take the initiative, a great step in advance will have been taken. The present is the most favourable time for forming an investment trust. I do not think any banks should be asked to participate in the scheme.

Q. 7. Would you consider these institutions better than an Industrial Bank? If an Industrial Bank were established for each province, what precautions would you indicate in its working with reference to—

(i) the industries, to which a loan can be given,

(ii) the security, against which the loan can be given,

(iii) the amount of loan and the margin,

(iv) the nature of the control, supervision or interference with the industry, to which the loan has been given by the bank.

A. I do not think there is any comparison between an investment company (by which I mean what is strictly an investment trust) and an industrial bank. Each in its own sphere can do very useful work for the community, but their functions are entirely separate. The difficulties of running an industrial bank successfully are many. In my opinion, men count for more than money in such an enterprise, and it is difficult to get together a trained and efficient staff. The head man must possess qualifications and experience which are not generally to be found. Much reliance cannot be placed on the advice of experts. The best of them leave out some consideration or other which upsets their conclusion. My submission is that only one bank should be started in the first instance by way of an experiment, and when that is successful or experience has been gained and there is a nucleus of good organization, the question of establishing other banks should be taken up. I am unable to answer generally queries (i), (ii) and (iii). As to (iv), I would say that the bank must be in very close touch with the industry, the closer the better, and it should not be objected if it claims all the rights of a partner without the liabilities.

Q. 8. Could such an Industrial Bank come into existence without Government assistance? It has been suggested by some people that Government should guarantee the share capital of such banks for some time or for all times, and, by others, that Government should also guarantee the bonds issued by such industrial banks. Would you favour both these guarantees, one of them, or neither, in the larger interests of the country?

A. I do not think that at the present time an industrial bank can be floated through private enterprise. The only chance is for a State aided bank.

Q. 9. Is there a large amount of capital in the country generally and in the Indian States in particular, which seeks investment and which expects a return of something more than the yield of gilt-edged securities? What would be the best method of mobilising this capital on lines safe to the investors and advantageous to the economic life of the country?

A. I am not competent to answer this question.

Q. 10. Could you tell us from your experience whether the existing legal means for foreclosure and recovery are satisfactory, or any improvement can be made therein in order to safeguard the debenture holders?

A. I may be permitted to make one suggestion in relation to this question. Under Sec. 69 of the Transfer of Property Act, a power of sale without the intervention of the Court is invalid where either the mortgagor or mortgagee is a Hindu, Mahomedan or Buddhist and where the mortgaged property is not situate in a Presidency Town and the 5 other towns specifically mentioned in the Section. This imposes a serious disability on Hindus, Mahomedans and Buddhists, and they are unable to deal with their property or lend on property as freely as others, for a mortgage without a power of sale has not the same value as a mortgage with one. The considerations which originally led to the enactment of the rule can be hardly said to hold good to-day, and it must either be annulled or the Governor-General in Council should, by notification, extend the exception to other important towns in the country. That part of the Presidency Towns which is not within the jurisdiction of the High Court is not covered by the exception, and, therefore, the anomaly prevails that a power of sale is invalid as to a property at Lower Circular Road, Calcutta, which would have been valid if the property had been a few yards away from the other side of the road.

Q. 11. Can you give us your view as to whether, in the matter of financing industries, the managing agency system would prove useful in the future?

A. The managing agency system must continue to be useful in the matter of financing industries as long as an industrial concern does not own both its fixed and working capital.

No. 45.

Statement of evidence submitted by Mr. Maneklal Premchand, Bombay.

Question 1.—Please describe to us the method in which gold and silver bullion are being imported in Bombay.

Answer.—Bullion is imported into Bombay by the dealers, majority of whom are members of the Bombay Bullion Exchange, Ltd., who send orders for their requirements either direct or through banks or brokers. The orders are placed with London generally, although in case of silver, orders are sent to New York to a certain extent. As soon as an advice is received from London or New York of the purchase of bullion a remittance is arranged through an exchange bank in the city. In case of shipments from New York, payment is generally made through London. A contract for the purchase of bullion T. T. is made in the appended form, and both the bank and the dealer abide by its terms.

Question 2.—Who finances the articles up to the stage of their arrival to this country? Who finances the articles while they are waiting in Bombay City? Who finances them when they go out?

Answer.—Exchange banks finance bullion imports till their arrival in this country. As stated in answer to question (1), the bullion T. T. contract is made through certified brokers with an exchange bank by the dealer. The banker is given written instructions by the dealer whom and when to pay in London or New York as the case may be against complete shipping documents. The bank in Bombay instructs its office or agents in London to make the necessary payment. On arrival of t bullion in Bombay, the dealer has to arrange to take delivery of the sa within ten days from the bank which clears the stuff and stores the sa in its strong rooms.

During the time that the bullion is waiting in this country the local and exchange banks in the city finance it. The merchant takes delivery of the bullion as and when he needs against payment of the portion taken up. In case of bullion being railed up-country the local shroff finances it. In many cases the shroffs who combine in themselves the function of commission agents as well, receive orders from up-country clients for the purchase of bullion.

Question 3.—How many months' average duration would you give from the moment of the arrival of the articles at the port to the moment when they are in small useful lots in the hands of goldsmiths who have to use them? Could you roughly indicate the amount of finance which is involved in this trade?

Answer.—It is very difficult to give the time with any degree of accuracy as it depends upon the season. In the busy season, *i.e.*, from December to May, when the demand for bullion is generally at its best, it is estimated that it takes roughly two months after its arrival at the port to be in small useful lots in the hands of goldsmiths. During the slack season, it is held for much longer time by the up-country shroffs either on their own account or on behalf of the local dealers. The total amount of finance involved in this trade averages roughly six crores of rupees.

Question 4.—Could you indicate to us the position of India as an importer of foreign bullion; whether any imports are taking place direct from South Africa, and, if so, how they differ from similar imports from the United Kingdom?

Answer.—We give below the figures indicating India's position as an importer of foreign bullion for the last three years:—

—	*1927.*	*1928.*	*1929.*
Total World production of *gold* .	Rs. 110 crores.	Rs. 111·3 crores.	Rs. 111·3 crores.
Imports of *gold* into India . .	Rs. 16·46 ,,	Rs. 21·12 ,,	Rs. 17·84 ,,
Total World production of *silver* .	254 million ozs.	257 million ozs.	254 million ozs.
Imports of *silver* into India . .	112 million ozs.	106 million ozs.	80 million ozs.

Gold bullion and sovereigns imported into this country generally come direct from Durban (S. Africa) although the order for the same is placed through London and finance is also arranged in the same quarter. Shipments from S. Africa are made either to Bombay or Madras direct. Gold imports from London differ from the S. African gold in this that the former come in special class of bars.

Question 5.—Could you tell the Committee with regard to the gold bullion of Mysore whether any portion of it is released in Bombay?

Answer.—The Mysore gold mines output is refined at His Majesty's Mint, Bombay, and sold in this country since many years.

Question 6.—Is there a proper agency in Bombay now for dealing with this gold bullion, and, if so, could you account for the bulk of it not being absorbed in India here directly, saving to this country the charges to and fro?

Answer.—Yes. There is a proper agency in Bombay for dealing with this gold bullion.

Question 7.—Are Indian bullion brokers admitted freely to the trade in the United Kingdom? Is there any difficulty of any kind experienced by Indian bullion dealers?

Answer.—There is no restriction or difficulty experienced by either the bullion dealer or the broker in trading with the United Kingdom.

Question 8.—On what basis are loans given by bank? What is the margin? What are the ruling rates?

Answer.—Loans against bullion are generally arranged at about the ruling rates for all funds in the market. The margin in case of gold is about 5 per cent. In case of silver, the margin varies according to market conditions and movements in prices. The usual margin is about Rs. 5 per 100 tolas. The ruling call rate is 2½ per cent. and the ruling price of gold, Rs. 21-7-0 per tola, and the ruling price of silver, Rs. 48 per 100 tolas for ready delivery.

SPECIMEN FORM.

Bombay, ——————————

To ——————————————————

Sir,

We have this day ——————————————by your order and for your account ——————————————————————. about £—————————— (Pounds ——————————————————) T. T. on London @ for payment of gold or silver bullion or sovereigns to be shipped from London by mail during—————————— shipping, insurance and all other charges to be paid by the dealer. Interest at the Bank of England rate minimum 4 per cent. per annum from the date of payment in London to the date of payment in Bombay to be paid by the dealer. The dealer to inform the bank before the due date of shipment the parties from whom to take delivery of the bullion or sovereigns in London and the rate at which to pay for the same. Any difference in the amount of the invoice to be adjusted according to the bank's current buying or selling rate on the date on which the documents arrive.

Payable:—The bullion or sovereigns to be taken up in ten days after arrival.

Yours faithfully,

Brokers.

No. 46.

Statement of evidence on behalf of the Andhra Chamber of Commerce submitted by Mr. V. Venkateswara Sastrulu, Madras.

AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

Internal and Foreign trade.

Foreign trade is chiefly in the hands of foreign export houses which are financed by foreign exchange banks. The whole export trade on the whole is well organised. But the internal trade is very unorganised. There are no regular bankers or banks to finance them on any systematic lines.

I.—Industrial Banks and Credit Facilities for India's Main Industries.

1. The banks, exchange or joint stock, both Indian and European, do not finance industries at all. The European banks give large overdrafts to European firms. An Indian business, however flourishing it may be, does not get any assistance from even Indian banks even though the stock and goods may be ample and sufficient. It seems to be the practice of at least the Indian banks not to have anything to do with industries. Perhaps in the case of goods that have actually arrived or goods manufactured, they advance money by keeping them in their godowns, but it kills the business. The banks in England are more conservative in this respect than the Continental banks. Those who follow the English tradition of banking in India certainly will not finance industries.

2. The banks keep clear of such investments as a matter of principle. Unless special industrial banks are constituted with the sole purpose of financing industries, no help will be forthcoming. The largest class of people who are getting overdrafts from banks, Indian and European, are the *Nattukottai Chetties and Marwaries*, and they are professional money-lenders. and this system connot be called helping industries.

3. The moneys advanced to these people are always shown as moneys advanced to Indians for industrial purposes. Industrial banks should be established in each province with branches in each district, and the moneys that are now advanced by Government under the "State Aid to Industries Act" may be paid through them. The banks are to have additional capital from private depositors also, and these have to be worked on similar lines as the agricultural banks. Their help should reach the cultivators of the industrial crops. In cases where money-lenders or large exporters advance moneys on produce such as ground-nuts, tobacco, cotton, etc., the poor producers are squeezed out of their profits, and they get a bare minimum living wage.

4. There will be no risks, and no safeguards are necessary, if the banks loan money to producers and get produce in their godowns and stipulate the rates from middlemen buyers or wholesale exporters or foreign buyers. The banks will have ample security in the produce, and they will also be near the centres of production. They will also have the incentive to find out profitable markets for their produce. The exporters and importers will have to deal with the banks who will be able to make the best terms, as

they will be advised frequently as to the rates prevailing in the markets for the produce and rates of purchase in the countries where such goods are in demand. The banks themselves, through exchange banks will deal with leading centres of trades and make a good profit.

My scheme will be that in each taluq there should be facilities for agricultural loans and industrial loans. As there is a tahsildar in each taluq, Government may exercise such supervision as it thinks necessary or it may appoint a special officer. The whole scheme of industrial and agricultural credit should be to make the villages have all the areas cultivated and each ryot or peasant get sufficient living wage free from money-lenders or middlemen. If the reconstruction of villages takes place on a large scale on these lines, the whole country will be economically independent and there will be no political disaffection. In the West an examination of modern conditions will show small trades extending towards greater standardisation and better co-ordination. Here there are more disintegrating elements.

II.

All trades are in the same position. The credit facilities that are required are that the Indian banks after proper enquiry should be able to give bank reference or solvency report to Indian traders who want to indent for goods from foreign countries without their depositing the equivalent cash. This may be done without risk in cases of traders who have immovable properties or large outstandings due from well-to-do and *bona fide* customers or on the written guarantee of two respectable customers of the banks. The whole thing may be put through by the Indian banks through exchange banks. The exchange banks must accept the guarantee of Indian banks who will have every opportunity of knowing the conditions of the business and the status of the trader.

Most of the Indian traders do not get any assistance. At present they are doing business with European firms who act as middlemen. That is so both as regards exports and imports. The large volume of hides and skins that are exported come from Indian merchants. As they have no proper banking facilities, they take their goods and hand them over to foreign firms and these firms are able to make profits out of these people after paying for highly-paid partners, managers, etc., costly buildings and godowns. In the same way with imports, they have to get their stock through foreign firms. More than half the profits go to the middlemen firms, and the trader gets a very little margin on cost price. That is why no Indian trader is doing business permanently, but fails during bad seasons, as the profits he makes in good seasons are barely sufficient to keep him up. The remedies are that the Indian banks should finance the traders in co-operation with European exchange or joint stock banks and the Indian Trade Commissioner in England should help the direct relationship between the buyer and seller. A merchant who imports piece-goods, glass-ware, hardware, etc., imports them through foreign firms and loses most of his profits. A merchant who exports groundnuts, tobacco, cotton, grains, etc., does so through foreign firms and loses most of his profits.

2. It is not necessary to discuss this as, with few exceptions, no Indian trader does any foreign business direct.

As regards exchange rates the controversy is still raging and the rates are not fixed purely with reference to commerce. It has become a part of the political problem of the country. The advantages and defects

of 1*s.* 4*d.* and 1*s.* 6*d.* ratio have again come up for discussion before the Federation of Indian Chambers' meeting which is to be opened by the Viceroy. There is no doubt that 1*s.* 6*d.* is an "ill advised and disastrous ratio."

As pointed out above, the defects in the present system are such that no Indian business thrives for a long time. Till the Indian banks or the new industrial banks are able to come to the help of their countrymen by providing credit facilities and the exchange banks in turn help the Indian banks by accepting their guarantees and till the Indian chambers of commerce take up the work of exchanging lists of buyers and sellers, the rates and conditions in which business could be done, the precariousness of Indian trade and business will continue.

III.—Regulation of Banking.

1. Yes. These examiners should be appointed by a Chamber of Bankers or Institute of Bankers which I have suggested. The duties will be to audit and report as to the solvency or otherwise of the banks, examine the investments and the affairs of the bank as a whole.

2. Provided there is proper control, no restrictions should be placed.

3. The present 'legal' definition of the bank is enough and no restrictions need be placed.

The only conditions are with reference to the employment of Indians as officers of the bank in higher grades with reference to (b) and (c).

Through a Chamber of Bankers or Institute of Bankers which is absolutely necessary.

4. The present legislation is enough. Too many restrictions should not be placed.

5. Yes. They should have a license. Trade Commissioner in London.

6. Yes. Some amendments are necessary in course of time.

7. By a Chamber of Bankers, arbitration will expedite the liquidation and under the scheme proposed, there will be no necessity for liquidation.

8. There should be a Chamber or Board of Bankers and the Central Committee should, on a report of the condition of any bank, take the necessary steps.

9. The whole matter should be left to the discretion of a Central Board.

10. Yes. A Central Committee which would take up the affairs of the bank. There are central boards for railways, irrigation, commerce, etc. It should be constituted on similar lines.

In India the distance between the provinces and the differences in social and economic conditions require special organisations. The different banking organisations now prevalent, both indigenous and others, cater to different kinds of customers. For some time a Central Committee of bankers is necessary to standardise the banks into one uniform pattern, and to level all differences in organisation and methods. This is a kind of evolution that will take some time. It is not possible to have banks all modelled on the western standards as they are not suitable to Indian conditions. Somehow or other the political leaders have not bestowed any attention on the financial and economic conditions of the country and their solution for all the troubles is political independence. But a higher political status is

impossible without complete economic independence and economic well-being. An easy money market, an agriculturist free from debt, a trader who gets easy credit facilities, peasantry free from starvation, are all necessary before one aspires for political independence. The duties of the Central Board will be :

1. To appoint auditors for examining the accounts of the banks and get reports from them as to the solvency, and to scrutinise how far they are strictly adhering to the banking practice and the best traditions of banking.

2. To regulate appointments by Indianising the bank service.

3. To bridge the gulf that now exists between well-conducted Indian banks and the European banks.

4. To keep the banks in touch with the money market on the one hand and commerce on the other hand.

5. To increase the circulation of money from one centre to another and also to the distant trading centres.

6. In cases of failure of banks which have been doing honest *bona fide* business and where such failures are due to causes beyond their control, to help them to tide over the crisis by timely help.

7. To regulate the Bank Rate.

8. To tap the resources which are at present not invested.

9. To arrange for easy liquidation without going to courts.

10. To protect the Banks in cases contemplated in question 12.

11. To bring into line the indigenous banks by Westernising them a little more and the Western banks by Indianising them.

12. To prevent the middlemen money-lenders from borrowing at easy rates from banks and lending them at usurious rates to ryots, small traders, etc., who are really the people to be protected.

13. In short to exercise general control over banks and also advise the Government to place their money in all banks without showing preference to one bank or another.

14. To publish a list of banks where Government and official and private trustees may invest.

The Central Board should have branches in the Presidencies. Publication of banking rates, balance sheets, exchange of information, etc., in a Banking Gazette.

The Board should be constituted thus :—

⅓ of the members should be leading commercial men.

⅔ of the members to be bankers with an equal number of Indians and Europeans, if necessary the Member for Finance and Member for Commerce to be *ex-officio* members. The same constitution in the Presidencies also.

IV.—Banking Education.

1. There are no facilities at present except in commercial colleges and they are very, very few. Even in these colleges, banking is one of the many subjects. Most of the text-books are text-books written by English or continental authors with special reference to English and foreign advanced

conditions with due regard to the temperament and habits of the people in such countries. The psychology and the habits of the peoples of India and their economic, political, social and religious conditions are very different from those of other countries, and in India itself they differ in different provinces. Books on banking ought to be written with due regard to these conditions by experienced Indians. And advanced economics with special reference to Indian conditions should form a part of the studies. Lecturers in such colleges should thoroughly be proficient as to Indian conditions. As such at present there is no relation between the Indian conditions, the text-books read and lectures delivered in colleges.

There is no co-ordination between each other.

2. No. Under the present method most of the important posts in the Imperial Bank of India and other banks except the co-operative banks are filled by young men drafted from England on high salaries, though the real work is done by Indian clerks. They cannot understand the Indian conditions.

3. They are not combined, *vide* answer to question 1. The required training can be given in India. The training ought to be given with special reference to Indian conditions and not with reference to any theoretical principles.

5. Such an Institute is necessary. It ought to have a member from each province. There ought to be a Central Association with branches all over India.

They ought to arrange for the banking education, both theoretical and practical.

7. The only training is training in the shop or firm which one gets. But such training is also disappearing as the heriditariness of the profession is disappearing. Taking the banking community in Southern India, the Nattukottai Chetties, they are put into schools and colleges and they follow a different pursuit in life, though they call themselves bankers. The present generation has no training except when absolutely necessary.

No suggestions, as this kind of banking should be switched on to the ordinary Western banking methods. Every indigenous banker should have training in Western banks.

8. The prospects are the same as with reference to any other profession. With the Indianisation of the Imperial, exchange and joint stock banks, and with the spreading of banking facilities, there will not be much difficulty.

Yes. The absence of trained men is one of the causes.

V.—General Banking Organisation and Money Market.

First and foremost is co-operation. Many defects can be removed by it and no amount of co-operation can be forced by legislation or administrative measures. There is absolutely no co-operation at present between Indian joint stock banks. Indian banks and the European banks. They stand apart. Absence of free circulation of credit facilities is due to this. Except emphasising strongly that they must co-operate for the general economic regeneration of the country, nothing else could be said.

3. The organisation and function of clearing houses can be useful only when a larger Indianisation of European banks takes place and more Indian banks are established.

7. The cost of management may be reduced by (1) the employment of well-trained Indians without recruiting from England and other places, except when absolutely necessary.

(2) By tapping various resources which are still to be developed. C and D can be done by having a common Chamber of Bankers.

8. Ignorance of investors as to the facilities extended by the banks, the middleman money-lender who takes advantage of easy rates of interest from the banks, the necessity and ignorance of the villagers which is exploited by the middlemen, the distance, absence of education and gross illiteracy of the peasant agriculturist and trader, desire on the part of individuals to become money-lenders themselves, instead of co-operating together to form a bank, all impede the formation of banks.

9. India is an agricultural country and the persons who do export business are few and as such there will be absence of bills.

10. The phrase 'Indian money market' is a misnomer. The busy centres of Bombay and Karachi have their own conditions, Madras is slightly different. Most of the places outside these places which comprise more than ¾ of the area of India are unaffected by Indian money market conditions.

11. There is no regularly organised brokerage system.

12. Much business is not done in that way.

13. The banks do not keep godowns to meet trade requirements.

14. It is not necessary to get foreign capital to banks. The funds that are available can be utilized.

(1) The Trust Act can be amended in such a way that trustees who have unlimited money in their hands, which can be invested for a long time, may invest in banks.

(2) Government may keep deposits in all the banks without confining themselves to the Imperial Bank.

(3) There is some source which may be made available. The religious trusts, mutts, temples and other endowments have very large funds extending to several crores. These are all permanent endowments These will serve as capital for any number of banks all over the Presidency. Now these have been brought under the control of Government by the establishment of a Board, and it must be easier for Government by legislation to release as much capital as possible.

15 & 16. The Presidency banks have not been useful for any of these purposes.

There was much criticism against the Presidency banks and as a remedy against the evils pointed out the Imperial Bank Act was passed. Unfortunately the Act, whatever its objects may be has only created a banking organisation which is costly, which absorbs all Government deposits and its usefulness to trade is as scanty as it was before.

All banks, whether indigenous or joint stock, should have the same facilities and concessions.

Supplementary statement of evidence submitted by the Andhra Chamber of Commerce.

The written memorandum already submitted to your Committee represents to some extent the personal views of one of us, namely, Mr. V. Venkateswara Sastrulu and so we have the honour to submit the following views of the Andhra Chamber of Commerce of the questionnaire issued by the Central Banking Enquiry Committee.

SECTION I.

Industrial Banks and credit facilities for India's main industries.

Q. 1—

A.—The banks are not financing capital or block expenditure of the industries so far started in the Andhra districts. The Bezwada Weaving Mills Ltd. had to be wound up because they could not procure money for capital expenditure to establish the spinning section. In the case of the Carnatic Paper Mill at Rajahmundry, the Imperial Bank did advance some funds, but they were given only for a short period and so the Mill could not start work when the Imperial Bank called off the loan, till Mothey and Pyda people came to its rescue by undertaking to finance the concern. Regarding capital or block expenditure for industries, our Chamber is of opinion that they should come from the share capital or debentures on their stock and plant. As regards the financing of current requirements or floating capital of many small industries like rice mills, cotton presses and ginning factories, the banks are giving very little help. At present much of the finance is got from indigenous bankers at a very high rate of interest. Our chamber is of opinion that the banks should take a more sympathetic view and finance liberally all industries that need financial help in this respect.

Q. 2—

A.—In the matter of industrial production, the firms have to finance themselves through their share capital and such loans as they are able to raise on their own responsibility and their stock, and the financial relief which the banks afford is not adequate. The foreign export and import business is mainly in the hands of foreign firms. They get their finance through their own funds as well as on overdrafts from exchange banks and from facilities of discounting their bills of lading. As regards exports and imports from one province to another, the business is mostly in the hands of Indian merchants. As regards the financing at the early stages of marketing, it is done in diverse ways by various agencies. There is no systematic method of business or financing and conditions vary according to circumstances. In the matter of internal trade, bills used are mostly hundis and as regards foreign trade, the bills are exchange bills.

Q. 3—

A.—The rate of interest on the loans raised on hundis, promissory notes or bonds varies from 12 to 18 per cent. and in some cases, it exceeds 24 per cent. even. This high rate of interest is causing hardships to traders and merchants. The Imperial Bank alone advances money to approved businessmen like Nattukkottai Chettys and Multanis at a comparatively

low rate of interest, of about 7 or 8 per cent. The Indian joint stock banks lend money at a rate varying from 9 to 12 per cent. But as the banks generally lend only to middlemen bankers like Multanis, who in their turn finance the traders, the trader is not benefitted by the comparatively cheap rate of interest of the banks.

Q. 4—

A.—At present, the banks are not able to adequately fianance industries; nor can they be expected to finance the industries especially for capital expenditure in future. As they cannot utilise short term money for long term purposes, it will be enough if they are able to finance the industries as far as running expenses are concerned which they can certainly do and ought to do. Regarding the starting of new industries or helping the development of old industries, it is necessary to have industrial banks and supplement the financial resources of the industries. The purpose of an industrial bank shall be not to finance the whole of an industry but only to help it whenever an industry is in urgent want of funds to enlarge its scope of business so as to make it a paying concern. Our Chamber is of opinion that an industrial bank may be started in each province.

SECTION II.

Financing of Foreign Trade.

Q. 1—

A.—The export and import business as stated before is largely in the hands of foreign firms. There are very few Indian merchants who do direct business with foreign countries and it is not possible for them to do large business under the present conditions in competition with well-established foreign firms. In the Andhra districts, the whole of the foreign export business in groundnuts, cotton, oil seeds, etc., is done by Messrs. Volkart, Rally and Gordon and Woodroff, who have established their agencies in all the centres of production. As these rich foreign firms are backed up by the exchange banks in India and supported by their business relations and banking connections in foreign countries, no Indian can undertake the export and import business unless he has equally good facilities as mentioned about which he has not got now. Our Chamber is of opinion that the Committee should apply its attention to formulate definite proposals in its Report to encourage the Indian merchants to have the country's export and import business in their hands.

Q. 2—

A.—For one reason or another, the Indian merchants are not able to get clean credit from banks in their export or import business. In the method of financing by banks, there are gaps which the Indian trader is compelled to bridge, whereas the foreign merchant has no such gaps. To substantiate this, our Chamber wants to point out that the Indian merchant has to find finance not only at the stage of buying but also at the final stage of exporting, as he does not procure money from the banks either for buying or at the point where the goods are taken delivery of from the railway terminal and are shipped at a port and shipping documents obtained. Likewise, the Indian importer generally does not get credit

during the period, *viz.*, after taking delivery of the shipping documents of the goods at the port and till they are actually removed from the port and placed in the bank's godowns. The members of our Chamber complain that foreign firms are accommodated by the banks at both the above stages.

Foreign firms have the advantage of conducting most of their transactions in sterling value and setting off the values of exports against imports. Whereas the Indian merchant has the double disadvantage of losing something both in exports and imports by way of commission in exchange. Further, the arbitrary fixing up of the ratio by the Government has made matters worse. So. our Chamber is of opinion that unless a gold standard is established in India, the difficulties and disadvantages in trade are bound to continue.

Q. 3—

A.—Our Chamber is of opinion that the establishment of bonded warehouses will naturally help the Indian merchants and so they should be soon established. In respect of the practice of banks in releasing goods on trust receipts, some of our members complain that they are not getting the same facilities as the foreign firms or merchants.

SECTION III.

Regulation of Banking.

Q. 1—

A.—Our Chamber favours the idea of audit and examination of banks' accounts by examiners selected by the Indian Institute of Bankers. The scope of the examination shall be limited to investigating the general nature of business transactions, auditing and reporting as to the soundness or otherwise of the concern, and examining the investments and the affairs of the bank as a whole.

Q. 5—

A.—Our Chamber favours the idea that all foreign banks operating in India should obtain a license from the Government of India on the advice of the Trade Commissioners in London. Regarding the operations of the foreign banks, our Chamber is of opinion that they should be compelled to invest their deposit amounts received in India in India itself and they should disclose in their balance sheets a statement regarding their transactions in India separately.

SECTION IV.

Banking Education.

Q. 1 (a)—

A.—The facilities for learning banking, specially higher banking, are very little in our province. There are some commercial schools in our province, but they give instruction only in the elements of banking along with book-keeping and commercial correspondence. There is no commercial college in our province like the Sydenham College of Commerce in Bombay. The Madras University is opening only now the B. Com. course

whereas Bombay and Calcutta Universities have long ago opened these courses. To what extent these commercial colleges can equip men for practical banking business is yet to be seen especially in view of the fact that there is no co-ordination between these colleges and the banks.

Q. 2—

A.—The banks are not providing facilities for training boys in their business except occasionally. The Imperial Bank of India and the exchange banks are officered mainly by Europeans. Indians are taken only as clerks. Of late, the Imperial Bank is recruiting a few Indians as probationers for officer's grade. As all the higher banking is mostly done by these banks, our Chamber is of opinion that more Indians should be trained by them.

The Indian joint stock banks and the co-operative banks are manned by Indians, but many of the staff have not good banking experience or higher education. It is better, in our Chamber's opinion, if Government gives scholarships and sends some bank's officers to specialise in the latest banking methods of the West, so as to study what methods are suitable for India and can be usefully adopted.

Q. 7 (a)—

A.—The only training the indigenous banker is having is apprenticeship in his shop or firm. But at present many of the sons of indigenous bankers are put in schools and colleges and have little or no training at all in banking theory or practice. It will be useful if the indigenous bankers are trained in Western method in addition to their normal training.

Q. 8—

A.—There will be good prospects if the boys are trained in banking. The slow development of banking and especially branch banking is due to absence of trained men.

SECTION V.

General Banking and Money Market.

Our Chamber is of opinion that if a properly constituted Reserve Bank is established for the whole of India, it may be able to bring about the co-ordination of the various banks which are now standing apart. This Reserve Bank acting as a Bankers' Bank can render necessary help to banks which are weak and banks which may have come to temporary difficulties. Our Chamber is of opinion that unless the Government of India hands over the management of currency policy to the Reserve Bank there can be no real Indian money market.

No. 47.

Letter No. 3—1930, dated 31st December 1929, from the Secretary, Bengal Chamber of Commerce, Calcutta, to the Secretary, Indian Central Banking Enquiry Committee.

I have the honour to send herewith copies of a print containing the replies of the Bengal Chamber of Commerce to certain of the questions in the questionnaire issued by the Indian Central Banking Enquiry Committee.

I.—Industrial Banks and Credit Facilities for India's Main Industries.

Question.—State with reference to one or more industries which you have had opportunities to observe the credit facilities required with special reference to (a) fixed capital expenditure or block and (b) current requirements or floating capital.

Answer.—In the case of a public company formed to carry on an industry, the fixed capital expenditure or block is provided in the first instance by capital subscribed by the public, usually in the form of ordinary capital. Current requirements or floating capital are supplied to a certain extent in the same way as fixed capital expenditure or block. Subsequently, if further requirements are necessary, these are obtained from the Imperial Bank or from the other banks by hypothecation of stocks coupled, if necessary, with charges on the block, or—as is the case in many instances—by advances made by the managing agents. This general description is, in broad terms, applicable to cases where the company is run on satisfactory lines and by agents or directors in whom the public have confidence.

Question.—State also how far in your opinion these requirements are met by various types of banks and bankers and how far the present facilities of financing fall short of the actual requirements.

Answer.—When an industrial venture is sound, the facilities available are fully equal to the actual requirements: but the position naturally varies in proportion to the soundness of the undertaking and the extent of the confidence that can be placed in it.

Question.—Give particulars of the rates of interest which are charged at present on loans and advances and also of the different classes of securities which are approved by banks, financial houses and commission agents.

Answer.—In Calcutta the usual rate of interest charged on loans and advances is 1 per cent. over Bank Rate, with a fixed minimum. The type of approved security naturally depends on the kind of industry. The principal one may be taken as being the hypothecation of stocks, but frequently a first charge on block or other similar charge is taken as collateral security.

Question.—If in your opinion banks in India have not financed industries, large or small, freely, to what causes do you attribute their reluctance?

Answer.—Speaking generally, banks in India have freely financed industries large and small, although in certain instances there may have been reluctance to do so owing, firstly, to the restriction imposed on the Imperial Bank, which is not permitted to make advances for a period of more than six months and secondly, to the natural desire of the exchange and local banks to have their funds so placed that these can be realised at reasonably short notice. As stated above, the usual method—and in the opinion of the Chamber the correct method—is for the capital expenditure or block to be put up by the investor, and not by the banks.

Question.—Do you think financing of industries is possible by banks as they exist at present and by their present methods?

Answer.—As stated, the original finance required for the capitalisation of industries should be subscribed by the public, and the banks are quite prepared to supply the working capital against stocks and goods in process.

Question.—Are you in favour of trade banks, i.e., *banks which specialise in dealing with special trades?*

Answer.—No. The business of such trade banks would be so restricted that, in the opinion of the Chamber, the proposition would not be a practicable one.

Question.—Do you favour the establishment of an industrial bank in each province?

Answer.—The idea of establishing an industrial bank, or more than one, in each province has much to commend it, but the experience of those industrial banks that have attempted the business in India has been so disastrous that the Chamber doubts the likelihood of such banks meeting with the necessary support from the investing public.

Question.—What are the facilities which in your opinion should be given to such a bank either by Government or any other agency?

Answer.—The Chamber does not think that any facilities should be given: such banks should be strong enough, when established, to stand by themselves without facilities being provided by Government or any other agency.

II.—Financing of Foreign Trade.

Question 1.—Would you state, with reference to any trade that you have had an opportunity to observe, the credit facilities which are required and to what extent banks supplying these facilities fulfil the present requirements?

In your opinion, is there any class of merchants who are unable to secure all the assistance they need either in India or in foreign countries, and if so could you give any reasons for this state of affairs? What remedies do you suggest?

Answer.—In the opinion of the Chamber, every class of merchants in India can receive sufficient banking facilities relative to the merchant's

position and reputation, and provided he is possessed of means proportionate to the business he undertakes: the amount of credit afforded to the merchant being, in other words, governed by his means and standing.

Question 2.—What are the credit instruments in use with regard to foreign trade?

Answer.—On the assumption that the trade changes from internal trade to foreign trade when the shipping documents are obtained and the bill of exchange is drawn, the credit instruments are the ocean shipping documents.

Question.—In what conditions is credit available against these documents and in what conditions is clean credit available?

Answer.—The usual procedure to obtain credit is for the seller to draw a bill of exchange on either the buyer or his agent or nominee in London or elsewhere, these bills being readily negotiated by the exchange banks.

Clean credit is available when the drawer of the draft is financially substantial enough to warrant the bank's accepting the drafts with recourse on him only.

Question.—What are the rates charged by the banks?

Answer.—In the case of the export trade, the rates of exchange are based on the value of money in India and the discount rate at home. In the case of the import trade, the rate for bills drawn in London is normally 6 per cent. per annum, but when the Bank of England rate goes higher than 5 per cent., this rate is raised appropriately.

Question.—Are there any seasonal fluctuations in these rates?

Answer.—There are no seasonal fluctuations. The fluctuations are caused by the movements in the Bank Rate as stated in reply to the preceding question.

Question.—What are the facilities existing at present in the export trade for discounting export bills?

Answer.—There is no discount market in India. Although the procedure explained above in connection with bills of exchange is in a way tantamount to the discounting of an export bill, there is no system whereby a merchant can hold his bills until he requires the money and then discount them in this market.

Question.—Are there any restrictions that you have to complain of?

Answer.—The only restriction is in reference to the absence of the system which would, in the opinion of the Chamber, be advantageous if it were introduced in India, that is to say, the discount system. The restriction is, however, not felt to such an extent that there is any need to complain of it.

Question.—Have you any remarks to make with regard to the exchange rates which are charged for the conversion of rupee into sterling or other foreign currencies, and vice versa, *or for the remittance of funds to and fro?*

Answer.—So far as the rupee/sterling exchange is concerned, the Chamber has no particular remarks to make. In consequence of the number of banks operating, and the competition in the provision of banking facilities that is thus available, the rates are competitive, and there is

nothing in the nature of a monopoly. The position is exactly the same in regard to the rate of exchange for other foreign currencies both to and from India.

Question 3 (i).—Have you any suggestions to make with regard to:—

(a) the establishment of bonded warehouses,

(b) the present practice of port trust warehousing,

(c) the practice by banks of releasing goods on trust receipts, or

(d) any other methods in vogue for the convenience and facility of merchants engaged in the import trade?

Answers: (*a*) and (*b*).—The Chamber has no suggestions to make with regard to the establishment of bonded warehouses. Congestion sometimes takes place in the port trust warehouses, but this is inevitable: port trusts cannot avoid irregular trade movements. Speaking generally, the existing facilities for warehousing are satisfactory, and fully meet the normal requirements of trade.

(*c*) The Banks release goods on trust receipt when in their opinion the standing of the party concerned warrants their doing so. The Chamber considers the practice to be satisfactory, and it has no suggestions to make with regard to it.

(*d*) As has been stated in reply to the first question above, the Chamber thinks that adequate finance and facilities are already provided to merchants of standing engaged in the import trade.

Question 3 (ii).—Do the interests of the traders and the public suffer in any way through any defects in the present organisation and have you any suggestions for its improvement?

Answer.—No.

III.—Regulation of Banking.

Question 1.—Are you in favour of audit and examination of bank accounts by examiners?

Answer.—Yes.

Question.—If so, how should these examiners be appointed and by whom?

Answer.—The Chamber considers that in every case there should be two independent auditors, either both appointed by the shareholders, or one appointed by the shareholders and the other either appointed by the directors of the bank or nominated by Government.

Question.—What should be the duties of such examiners? What should be their qualifications and how should their cost be met?

Answer.—The duties of such examiners should be those ordinarily carried out by auditors. Their qualifications should be such as those prescribed by Section 144 of the Indian Companies Act, and the cost should be met from the funds of the bank.

Question 2.—Are you in favour of any kind of restrictions being imposed on the business of all banks?

Answer.—No.

Question 3.—In your opinion is it desirable that the use of the word "bank" should be restricted and if so, what restrictions do you suggest?

Answer.—This matter has frequently been the subject of discussion, and even before the occurrence of the numerous bank failures which took place in northern and in western India some sixteen years ago the Government of India announced that in their opinion the time had come when the question of introducing legislation should be seriously considered.

Their idea was that the use of the terms "bank" and "bankers", and their equivalents, should be restricted to companies registered under the Indian Companies Act; and they proposed, if this idea were carried into effect, to impose certain restrictions upon the institutions thereafter possessing the name and prestige of "banks". Government suggested that restrictions were desirable in regard to the following points:—

(*a*) the prescription of a minimum amount of subscribed capital;

(*b*) a stipulation that an adequate portion of such capital should be paid up within a reasonable period from the starting of the business;

(*c*) a restriction of the full allocation of profits to dividends pending the building up of an adequate reserve; and

(*d*) restriction as to the taking up by a "bank" of businesss outside that of banking, in which the banking profit might be lost.

The Government of India's proposals were examined by the Bengal Chamber, and in common with other chambers they agreed that legislation should be introduced. They also agreed that the institutions styling themselves "banks" should be required to be registered under the Indian Companies Act. But it did not seem to them to be necessary that this restriction should extend to the term "bankers", because persons and firms styling themselves "bankers" do not attract deposits from the public to the same extent as does an institution calling itself a "bank". Moreover, the Chamber did not think it necessary to interfere with the operations of the Indian banker, or shroff, whom they recognised as an important factor in the financing of Indian trade, and against whose methods of business no complaint was made. The failures that had occurred had been almost exclusively among joint stock banks.

With regard to points (*a*) and (*b*), the Chamber thought that the minimum amount of subscribed capital should be Rs. 10 lakhs; that the minimum amount of paid-up capital should be Rs. 5 lakhs; that the authorised capital should be not more than four times the amount of the subscribed capital; and that no advertisement should be allowed of the amount of the authorised capital. The minimum amount of the subscribed capital to be paid up within a reasonable period should be at least Rs. 5 lakhs, *i.e.*, the minimum amount of the paid-up capital.

On point (*c*) the Chamber considered that the allocation of profits to dividends should be forbidden until all preliminary and flotation expenses had been paid; and that thereafter the allocation should be restricted by the obligation to set aside adequate sums for (*a*) depreciation and dead stock and investments and (*b*) reserve fund. They agreed that there should be a restriction as to a bank taking up outside business.

The Chamber invited attention to the following points:—

(i) *The question of working capital.*—Reference was made to the practice of some banks in India of showing their total liabilities as "working capital". The term was, the Chamber said, misleading, and its use should be prohibited. "Available banking funds" should be substituted.

(ii) *Goodwill.*—The inclusion, in the assets, of a sum to represent goodwill should be prohibited.

(iii) *Bank shares.*—A bank should not be allowed to advance money on its own shares.

(iv) *Names.*—There should be restriction as to the use of names likely to mislead the public.

The subject was touched on by the Royal Commission on Indian Currency and Finance, 1926. In paragraph 162 of their Report they suggested that the term "bank or banker" should be interpreted as meaning every person, firm or company, using in its description or title "bank" or "banker" or "banking", and every company accepting deposits of money subject to withdrawal by cheque, draft or order. But the Commission recognised that, in view of the special conditions of indigenous banking in India, this matter would require more detailed consideration than they had been able to give to it, and they recommended that it should be further examined.

Question 4.—Are you in favour of defining by legislation or otherwise the sphere of operations of any class of banks, e.g., *co-operative banks, exchange banks, etc.*

Answer.—No.

Question 5.—Do you think that foreign banks should not be allowed to do banking business in India unless they received a license?

Answer.—The Chamber does not think that foreign banks should be compelled to take out a licence.

Question 6.—A bank which is a limited liability company registered in India is at present governed by the law of joint stock companies in India. Do you consider that position satisfactory? If not, what additional provisions for special application to such banks would you suggest, particularly with reference to (a) authorised and subscribed capital, (b) capital that should be paid up before business is started, (c) provision of reserves, (d) proportion of cash balance to time and demand liabilities, (e) publication of balance sheets, their form and frequency, etc.?

Answer.—See the answer stated above in reply to question 3. The Chamber adhere to the views expressed by them in 1913 as outlined in that answer.

Question 7.—Have you any suggestions to make for the regulation of expeditious liquidation and advance payment to depositors in case of failure of banks? (Cf. the case of the Alliance Bank of Simla).

Answer.—The Chamber considers that the regulation of expeditious liquidation is a matter for the Court and, so far as the question of advance payment to depositors is concerned, this must depend on the circumstances of the case and in particular on the assets expected to be available.

Question 9.—It has been suggested that in some actual cases in the past where banks have been in difficulties, some plan for amalgamation

or reconstruction instead of liquidation would have been in the public interest. Would you state your views on this suggestion and would you recommend any provision for securing that, before liquidation proceedings are enforced, adequate opportunities should be given for exploring the possibility of arranging a scheme for amalgamation or reconstruction? If your answer is in the affirmative, please make suggestions as to the sort of provision which you have in mind.

Answer.—The Chamber considers that any question of amalgamation or reconstruction must be left to the shareholders and the other creditors of the particular institution.

Question 10.—It is complained that the cost of liquidation is high at present. Have you any suggestion to make regarding this point and for the reduction of such cost?

Answer.—The cost of liquidation is finally a matter for the Court, but while this is so it will ordinarily depend on the circumstances of the particular liquidation and will be affected by the nature of the assets.

Question 11.—Are you in favour of making any distinction between current accounts and other deposits in the matter of protection of depositors and do you suggest any legislative measures for the purpose?

Answer.—The Chamber is not in favour of making any distinction of this nature.

Question.—Do you recommend the creation of a special class of deposits as distinguished from current and fixed deposits under existing system and the passing of any special legislative measures for the protection of such deposits with a view to encouraging the investment of savings?

Answer.—No.

Question 12.—Have you any suggestions to make in regard to the proposal that is sometimes made that banks which are really stable should be legally protected against unjust attacks on their stability?

If so, please give your views as to who is to determine the cases in which such protection should be extended and in what circumstances, and also the nature of the protection to be granted.

Answer.—The Chamber agrees that it is very desirable that banks which are really stable should be protected against unjust attacks on their stability, but it seems to them that it is a matter of very great difficulty to legislate for the purpose of giving such protection without at the same time interfering with the liberty of free criticism, which may be deserved, and the right to which is necessary in the public interest. But one direction in which protection might very well be given to banks would be the adoption of an Act similar to Leeman's Act at home—the Sale and Purchase of Bank Shares Act, 1867—which curbs speculation in bank shares by insisting on the numbers of the shares or stock bought and sold or, if there are no distinguishing numbers, the name of the registered proprietor, being specifically stated in the contracts: in the absence of a measure of the kind in this country, such speculation is possible and if indulged in might easily induce an unjustifiable run on a bank.

Question 13.—What are the various taxes paid by banking companies? Do any of these taxes interfere with the development or amalgamation of banks?

Answer.—The only taxes paid by banking companies (other than municipal license fees and rates) are income-tax and super-tax. Super-tax is not payable on the first Rs. 50,000 of the profits, and there might be cases of several small banking institutions in a district, each with profits below this amount, which would amalgamate and thereby strengthen their position, but which refrain from amalgamation because of the fact that the accumulated profits would in consequence be subject to super-tax.

Question.—Have you any suggestions for modifying, removing or re-adjusting these taxes?

Answer.—Readjustment of the super-tax regulations is desirable so that the starting point should bear some definite relation to the capital employed.

Question.—Do you recommend any special concessions, etc., in respect of particular classes of banks, e.g., co-operative banks? State your reasons.

Answer.—No.

IV.—Banking Education.

The Chamber does not propose to answer this portion of the questionnaire as it is considered that the subject of banking education can more suitably be dealt with by banking institutions and the education authorities.

V.—General Banking Organisation and Money Market.

Question 1.—Do you find in the present organisation of banks and the money market in different parts of India any defects which are likely to be remedied by—

(a) administrative measures of Government,

(b) legislation, and

(c) co-operation amongst bankers themselves?

Answer.—No.

Question 2.—Have you any suggestions to make regarding greater co-operations between indigenous banks and other banks in India?

Answer.—It would, in the opinion of the Chamber, be advantageous if branches of banks of first class standing were opened to co-operate with the indigenous bankers and assist in linking them up more directly with the main money markets of India and so ensure the freer movement of funds according to the requirements of the district.

Question 3.—Have you any suggestions to make with regard to the organisation and functions of clearing houses in India.

Answer.—The Chamber has no suggestions to make.

Question 4.—Have you any suggestions to make with regard to the regulation of the bank rate?

Answer.—In the present state of matters, the dual control by the Government of India and the Imperial Bank is most unsatisfactory, and the Chamber considers that, until a Central Banking Authority can be created, the regulation of the bank rate should be in the hands of the Imperial Bank without interference from the executive.

Question 6.—Can you indicate the nature of frauds and malpractices which have been experienced by banks in India and which have from time to time led to stricter regulation and restriction of credit by these banks thus making bona fide *constituents suffer?*

To what extent have such frauds and malpractices to be attributed to the inadequacy of existing legal provisions and defective nature of business practices? Can you suggest any change which will afford protection to the banks against such malpractices without entailing any hardship on bona fide *customers?*

Question 7.—Have you any suggestions to make with regard to banking organisation in India by which.—

(a) *the cost of management may be reduced,*

(b) *the rates of interest on advances can be brought down,*

(c) *greater stability of banks can be assured, and*

(d) *the cash resources of the various banks can be mobilised to meet any emergency or unexpected situation that may arise?*

Answer.—In the opinion of the Chamber, these are questions to which the banks themselves are in the best position to reply.

Question 8.—Considering that the dividends of established banks are fairly high, what in your opinion prevents more capital being invested in the expansion of existing banks or the establishment of new banks?

Answer.—Although the established banks pay fairly high dividends, the money to pay these is earned not only on the capital of the banks, but on the capital *plus* the accumulated reserves built up as a result of many years conservative working. Where existing banks of strong financial standing are established, they cater fully for the trade, and there is, therefore, no inducement to establish new banks. The Chamber considers that, if the old-established banks required to increase their capital, the amount of new capital wanted would be readily forthcoming.

Question 9.—Do you support the suggestion that banks in India do not find a sufficiently large number of bills against which they could make advances and that this particular instrument of credit of which the banking systems in other countries make large use is not available in sufficient quantities in India? If so, what are the causes of this and what remedies do you suggest?

Answer.—It is the view of the Chamber that there are not sufficient suitable bills for discount to appeal to the banks, and the reason this instrument of credit is not freely used in India is the difficulty of ascertaining here the financial standing of the signatories to a bill.

Question 10.—Have you any suggestions to make regarding the organisation of the Indian Money Market with reference to settlements on stock and produce exchanges?

Answer.—The Chamber is against settlements, and prefers the system now existing in Calcutta, where there is no settlement, but stocks and shares, and produce, are payable on delivery.

Question 11.—Can you describe the relationship that now exists in India between the banks and the various classes of brokers, such as finance brokers, kundi brokers and exchange brokers?

Answers.—The banks and the various classes of brokers ordinarily work according to rules mainly through established associations, and as far as the Chamber knows the procedure is quite satisfactory.

Question 12.—Have you any information regarding the general agency business done by banks in India for their constituents?

Answer.—No.

Question 13.—How far have banks in India found the maintenance of their own godowns successful in meeting the trade requirements of their constituents?

Answer.—The Chamber believes that this arrangement works satisfactorily: if necessary, the banks are always prepared to take further accommodation to meet the requirements of the trade.

Question 14.—Have you any suggestions to make for augmenting the resources of banks so as to enable them to afford further facilities to commerce, industry and agriculture?

Answer.—As has already been indicated, the resources of the banks are adequate to their present needs, and if they required more capital this could be obtained without difficulty. This being so, the Chamber has no suggestions to make in reply to the question.

Question 15.—To what extent has the Imperial Bank of India been serviceable in the past—

(a) to the main industries of India, such as cotton, coal, jute, metals, sugar, electrical undertakings (including hydro-electric projects .

(b) to the movement of crops;

(c) to the exchange banks;

(d) to ordinary banks—Indigenous and joint-stock;

(e) to the Indian States; and

(f) to the Indian Provincial Governments?

Answer.—(*a*) By making advances, when required, as working capital against stocks.

(*b*) By making advances against railway receipts against stocks in transit, and by making advances against stocks held upcountry in godowns.

(*c*) and (*d*). By acting as bankers to the exchange banks and the indigenous bankers, and by conducting the clearing house.

(*e*) and (*f*). The Chamber has no information on these points.

Question 16.—To what extent has the Imperial Bank of India been useful in regard to the liquidation of other banks?

Answer.—In the opinion of the Chamber, the Imperial Bank has given assistance in reference to the liquidation of other banks to the full extent that could reasonably have been expected, with due regard to sound banking methods.

Question 17.—Have you any views regarding the present position of the Imperial Bank of India and the position it should occupy in the future?

Answer.—Until the Chamber knows what is to be the Central Financial Authority of the country, it is not possible for them to give an expression of opinion as to the future of the Imperial Bank.

Question 18.—What facilities and concessions has the Imperial Bank of India enjoyed from Government, municipal and other corporations and Indian States?

Should all these be continued or restricted?

State if in your opinion joint stock banks in India should also be afforded similar facilities and concessions.

Answer.—So far as the Chamber is aware, the main concession which the Imperial Bank has enjoyed from Government is the maintenance of Government balances.

The Chamber has no information regarding any facilities enjoyed by the Imperial Bank from corporations and Indian States.

The question of whether such facilities and concessions as are enjoyed should be continued will depend on the final decision come to regarding the question of a Central Reserve Bank.

In the opinion of the Chamber, joint stock banks in India should not be afforded similar facilities and concessions.

No. 48.

Statement of evidence submitted by the Bengal National Chamber of Commerce, Calcutta.

I.—Industrial Banks and Credit Facilities for India's Main Industries.

Q. 1. Regarding credit facilities available to the industries the Committee of the Chamber would confine their observations to such of them as are available to the tea gardens and a few other industrial establishments managed and controlled by some members of the Chamber. The tea gardens belonging to individual proprietors have to depend on loans for supplementing personal investments both for capital expenditure and working funds. The loans are obtained generally from Marwaries and other indigenous bankers against the personal security of the proprietor although in some cases such personal liability is coupled with a mortgage of the garden property. Gardens yielding annual crops may obtain accommodation against hypothecation of crops for meeting current expenses from brokers whose methods of operation are described later. The rate of interest charged for the loans by indigenous bankers varies according to the credit position of the borrower ranging from 12 per cent. upwards to more than 20 per cent. In cases where it is possible to obtain the loans from loan offices, some of which have distinguished themselves by their participation in the finance of the tea industry, the interest charges are considerably lower. The conditions of the loans obtained from the banks are very much the same as for those provided by indigenous bankers except that one of them, *viz.*, the Jalpaiguri Banking and Trading Corporation, Ltd., grants loans even against hypothecation of crops.

As for the gardens owned by companies the Committee have information regarding only such of them as belong to companies registered in India with a rupee capital, some of these being members of the Chamber. The companies can hardly raise enough share capital to meet their heavy capital outlay and have to take loans for carrying through their operations since laying out the garden till after the end of 4 to 5 years when plucking is begun. During this period of development the loans are generally obtained from either indigenous bankers or from loan offices of which mention has been made in the previous paragraph. These loans are secured usually by personal guarantee of some directors, but sometimes gardens are also mortgaged as collateral security. Loans for meeting current requirements are obtained by the established gardens against hypothecation of crops from a few reputed firms of brokers in Calcutta. The latter do not actually advance the money from their own funds but merely act as an intermediary on behalf of the constituent gardens for obtaining the loans mainly from the Imperial Bank of India. They stand guarantee for the loans provided by the latter and undertake to sell the hypothecated crops which have to be consigned wholesale to them. The crops brought down to the Calcutta Port are put up to auction and the sale-proceeds are employed first for paying off the loans guaranteed together with interest, usually 7 per cent. The residue left over is forwarded to the garden after deduction of commission charges varying from 1 to 2½ per cent., due to the brokers.

Some of the gardens depend on their managing agents for finance as well as for the sale of their crops. The loans in such cases are freely provided whether for capital expenditure or for current expenses and the security

usually takes the form of a mortgage of the garden or hypothecation of crops according as the loans are taken for capital expenditure or current financial requirements. The managing agents combine in fact the functions of a financing and a selling agent.

Regarding the adequacy or otherwise of the facilities thus available to the tea industry it has been brought to the notice of the Committee that the loans have to be rather dearly paid for specially when these are obtained from the indigenous-bankers. These bankers not only cover their loans by the double security of mortgage and personal guarantee but also stipulate occasionally for a commission on sales which together with the interest is calculated to yield a very high rate. This is specially true with reference to cases where the gardens being newly started cannot either approach the selling brokers or the few loan offices with limited funds, barely enough to mind the loan proposals of first class gardens. The directors who may have already made large advances to the gardens, as in fact they often do, naturally hesitate to incur fresh obligations by personally guaranteeing any further loans for the gardens. These gardens, again, cannot approach any well-established firms to act as their managing agents, whose chief functions, as has already been mentioned, are those of financing and selling agents. The plight of the gardens precludes the possibility of any new flotation of shares. Eventually these have to go into liquidation though they may have prospects of yielding crops in a couple of years.

In the opinion of the Committee the existing machinery of industrial finance having failed to take care of such cases some other agency has to be devised having better equipment for more adventurous methods of investment. Such agency can most fittingly be an industrial bank regarding which further observations are made in reply to question No. 4.

Besides jute, coal and tea, there are many industries in Bengal which though less prominent than these in respect of both their magnitude of operations and investment of capital, are fairly organised, far exceeding both tea and jute in numerical strength and involving some special problems of their own from the financial point of view. The category of these industries comprises establishments like rice mills, oil mills, hosieries, soap factories, etc. Most of them are being run on individual proprietory basis, the owner bringing in his own capital for meeting the initial capital outlay such as is necessary for acquiring land, setting up the factory, purchasing machinery and raw materials and providing other equipments. The limits of the personal investments of the proprietor are very often reached with the amount invested for initial capital expenditure and loans have to be taken for meeting deficiencies in the working funds. Such loans are obtainable at present only from the indigenous bankers who advance money against hundis coupled almost invariably with some form of collateral security. The rate of interest charged for such loans varies round the mean of 18 per cent. according to the credit position of the borrower. The rate must be considered to be inordinately high for industrial purposes but the worse feature of the finance of these industries is that loans even on such terms are not always available readily to all the borrowers.

Even such of these industries as are owned and managed by joint stock companies do not fare better by virtue of their corporate organisation, at least in the matter of obtaining finance. The realisations from their share flotations do not enable them to meet all the capital requirements and their dependence on outside finance is no less marked than in the case of similar establishments owned by individual proprietors. Loans are available to the

companies only when some directors agree to pledge their personal guarantee as cover in cases where no collateral mortgage of some real property is demanded by the financing agent. Generally, such loans are obtained from the indigenous bankers who charge the same rate and stipulate the same conditions as are demanded from and imposed on the borrowing individual proprietor.

With a view to remove these drawbacks and provide better financial facilities to the various middle-sized industries along with others carried on as a subsidiary occupation with agriculture, the Committee of the Chamber suggested in their memorandum submitted to the Bengal Provincial Banking Enquiry Committee that a State Aid to Industries Act on the lines of the Madras and Bihar and Orissa Acts should be passed in this province retaining the distinctive features of the Bengal Industrial Development Bill of 1928 which has since been dropped. The Committee did not then make any observations with regard to the financial requirements of the large organised industries which were supposed to be lying outside the scope of the enquiry of the Provincial Committees except putting forward the suggestion that these industries were to be taken care of by a distinct type of industrial banks designed specially for the purpose of financing large industries. The Committee of the Chamber would now take the opportunity of amplifying their statement with a further proposition, *viz.*, that the industrial banks, when set up, will have large scope for business for financing even the middle-sized industries which can hardly depend on direct State assistance for meeting all their financial requirements, though the same may be of considerable help to some of the struggling industries.

Q. 2. It has been observed in reply to question No. 1 that the entire output of tea gardens belonging to Indian proprietors or companies is brought down to the Port of Calcutta for auction sale through firms of brokers. The latter, as has been already stated, procure loans mainly from the Imperial Bank of India against hypothecation of crops coupled with their personal guarantee to provide their respective constituents with working funds. The production and movement of tea, therefore, may be said to be financed considerably by the brokers' firms mostly through the Imperial Bank, although there are such other financing agents as the indigenous bankers, a few loan offices and managing agents to which reference has been made in the foregoing reply. Reference has also been made to the methods by which the various middle-sized industries of the province are financed. Nowhere do the middlemen play any important role with regard to the financing of the industries. Only the managing agents in so far as they act as commission agents with reference to industries like tea do take an active part in financing their own constituents. The financial help rendered by managing agents is no less marked in the other two most important industries of Bengal, *viz.*, jute and coal.

The use of any industrial paper in this province is practically unknown. Occasionally title deeds are used for raising money by creating an equitable mortgage. Cash credits and loans for replenishing working funds are obtained from the big joint stock banks by established industries like jute. The instrument most extensively used, however, is the *hundi* which to all intents and purposes is a promissory note conveying or creating no lien over any stock or commodity. The use of such instruments is most widely in vogue among the middle-sized industries and to some extent among the Indian proprietors of collieries. Some of the middle-sized industries find it possible to secure advances from banks against bills drawn upon railways and Government offices for sundry requisites supplied to them.

Generally speaking, the importing manufacturers have to procure the finance for indenting necessary articles of manufacture. Only in some cases, however, accommodation is provided by some local banks undertaking to take delivery of the consignment on behalf of the manufacturer and giving the latter the facility for taking part delivery against part payment.

Regarding the methods by which the credit facilities may be improved and extended some suggestions have been made in reply to the preceding question. The jute mills being invariably started with large capital and having easy recourse to the banks for temporary accommodation do not raise any serious problem with regard to their finance. The tea industry occupying a less favourable position than jute has the advantage of obtaining advances against hypothecation of crops. Similarly, the coal industry which relies on occasional loans against *hundis* is comparatively immune from the pressing need for outside financial help. The bulk of other industries, however, suffers from proverbial want of financial facilities which has so long thwarted the many-sided industrial development of the province. The extent of the dependence of these industries on the indigenous bankers, charging often a rather exorbitant rate of interest, proves beyond doubt that the existing banks alone are not a dependable source of industrial finance. The Imperial Bank of India, as at present constituted, cannot undertake greater responsibility with regard to the financing of industries, being debarred from making any advances for a period extending over six months inspite of the fact that it commands large sources of loanable capital. The only solution of the problem, therefore, seems to be that a distinct type of industrial banks should, as already suggested, be set up in all the provinces concentrating their operations mainly, if not exclusively, on the financing of established as well as new schemes of industrial enterprises.

Q. 4. The reluctance of existing banks to finance industries may be traced to several causes. Firstly, the banks themselves are ill-equipped for the purpose of undertaking regular finance of industries and they are distinctly of a commercial character and as such competent to grant only short term loans. Secondly, their hesitancy in granting loans for even short periods is mainly due to the uncertain prospects of industrial investments in this country traceable to no mean extent to the fiscal and currency policy of the Government of India. Thirdly, with a few exceptions most industries, specially those floated on a joint stock basis, have often a rather two meagre capital to make their loan proposals attractive to the banks. The result has been a paucity of regular finance which alone can lead to a steady industrial development of a province or country as the case may be.

It appears imperative, therefore, that some other efficient devices should be found out for the financing of the industries alone and the one that is being adopted in all progressive countries is the establishment of a sufficient number of well organised industrial banks. Such banks will not be confronted at every step with the calls of their depositors, being mainly dependent for their operations on the large amount of paid-up capital, the debentures issued and the loans, domestic, and foreign, floated.

The Industrial Commission reporting so early as in 1918 recommended the immediate establishment of industrial banks and were of opinion that "an industrial bank should possess a paid-up share or debenture capital high in proportion to its total business ; it should observe the usual precautions in not allowing too large a share of its funds to be used for the benefit of any singel interest or group of financially inter-dependent interests ; its loans on plants, buildings and land should be carefully considered and should be limited in

each case, the larger portion of its industrial business should be confined to the provision of working capital ; it should provide initial capital with caution, at any rate during its opening years, and should not itself at first attempt to float companies, though it may advise and assist in other ways persons who propose to do so. The main factor of safety in an industrial bank is the judicious limitation of each class of business to its proper proportion" (para. 291—Report).

While it is possible not to agree with all that has been said by the Commissioners, their recommendation in favour of the establishment of a number of industrial banks in this country merits whole-hearted support, and it is much to be deplored that though about 12 years have passed since the submission of their Report, not a single industrial bank, properly so called, has been established and the problem of industrial finance has remained as acute as, if not more than, ever. Capital is proverbially shy in India, and while it may be conceded that the mere establishment of a large number of industrial banks will not by itself be able to attract the hoarded wealth of the community, it will at least be able to mobilise all the available money which is at present utilised in other and less useful ways. The industrial banks will also, if necessary, be in a position to float foreign loans and thus augment their resources, which they will be able to place at the disposal of the needy domestic industries. Besides, by closely supervising the business of the industrial firms financed by them and also guiding and advising them, when necessary, these banks will ensure not only the sound and efficient management of the enterprises, but will also create confidence in the minds of the investors, thereby inducing them and others to divert their surplus funds to the industrial enterprises.

Regarding the number and constitution of the proposed industrial banks in this country the Committee of the Chamber would suggest that there should be at least one of them in each major province with a minimum paid-up capital of 1 crore out of an authorised capital of 3 crores of rupees. Branches of these banks may be established in compact industrial areas situated at a distance from the centre where the head office should be established. In Bengal, for example, industries like tea, jute and coal are localised to a remarkable degree. The tea industry comprising several hundred gardens is concentrated on areas in and around the Jalpaiguri district. The coal industry is closely associated with Ranigunj and Jharia fields in Bihar, but the companies controlling it have been registered in Bengal. Jute mills are all situated in the suburbs of Calcutta. It may be found convenient to open two branches, one at Jalpaiguri and another in or near the coalfields, the head office in Calcutta undertaking to serve the jute mill areas. Other branches may be opened in places which may have a steady and continuous demand for loans from a large number of localised industries.

The capital of industrial banks should be subscribed by the public and to some extent by insurance companies. Government should guarantee a minimum return of 5 per cent. on the capital so long as the banks are not able to earn any profits. The shares of the banks should be kept open for subscription for a period of six months, after which the whole of the unsold portion of the total amount issued should be taken over by the Provincial Government to be disposed of by them, as and when, necessary and possible. The banks should also be permitted to issue debentures both domestic and foreign up to the maximum amount of ten or fifteen times their paid-up capital. Such debentures should be exempted from all sorts of taxes and should also be made trustee securities eligible for subscription, among others, by insurance companies.

Insurance companies are holders of large amounts of capital which they generally utilise in buying Government securities. Very few of them, if any, invest their monies in helping production both industrial and agricultural and the surplus wealth which they anyhow draw to themselves is lost to the community by not being so invested. They should, within limits, be permitted and even encouraged to place a portion of their funds in the hands of industrial banks, to be invested by the latter in financing new or old industrial enterprises. If Government guarantee a minimum rate of interest and declare shares and debentures of industrial banks eligible for subscription by insurance companies, and if, moreover, they control the operations of the banks in the way best suited to the interests of the people, there is no reason why insurance companies should not come forward and help the industrial development of the country in the way suggested above. There may be very good reasons which have so long prevented them from investing their funds in particular industries, but if the above precautions are taken, the more farsighted among them will perhaps find it worth while to join the industrial banks either as ordinary stock holders or as debenture holders. If necessary provisions might be made by which they may be represented in the directorates of the banks. Similarly, there are various trusts which may be permitted and encouraged to invest at least a substantial portion of their funds in the proposed industrial banks.

Regarding the functions of these industrial banks the Committee of the Chamber would further suggest that, whenever necessary and possible, these banks should help all the existing industries, large and small, as well as new industrial propositions ; but before doing so, they must be satisfied not only about the soundness of the schemes of the new companies, but also about the schemes submitted being carried out by really honest and capable persons. They should also retain substantial control over those firms which they would thus help or promote. In the opinion of the Committee the intimate relation of German banks to industries provides an example, which may be emulated in this country as well, for fostering industrial development.

The banks should also have special departments manned by experts and trained men whose business will be to examine all the schemes of their clientele and also to advise them whenever they may require it, and even sometimes volunteer advice and counsel, which it should be the duty of other departments of the banks to compel the borrowing firms to accept and carry out. The influence which German and other continental banks exercise over the industries may in this connexion be recalled. Even in England, where the banks have so long considered industries to be outside their jurisdiction, a movement has been set on foot for bringing their relations to industries in conformity with the practices prevalent elsewhere. When any existing company, or a group of persons intending to float one, would approach the provincial industrial bank for the necessary capital, the bank, if satisfied about the soundness of the schemes and the honesty of the " managers ", should underwrite the whole amount of the capital and, besides subscribing a substantial portion of the shares, undertake to sell the rest subsequently as the company secures public confidence. The bank should also be permitted to advance, when necessary, long term loans on the mortgage of the borrowing firms' assets, provided, of course, it is at the same time allowed a strong representation on the directorate of the firm or company.

Regarding the non-major provinces, some such system as has been adopted in America may be established in India also. Under the Federal Reserve System, and also under the Federal Farm System, the whole country has been

divided into twelve reserve districts, and also into twelve farm districts, one district of each set comprising one or more or even a part of one of the territorial States, the criterion of division being in both cases a strict reference to all relevant factors, geographic and economic, with a view to attaining a true economic balance. If the non-major provinces of India be divided similarly into a number of "districts" not necessarily coinciding with the administrative divisions, but according to the industrial developments, needs and prospects of such districts, and if a separate industrial bank be established in the most suitable place of each of such "districts" or more properly called divisions, the problem of financing industries for the whole country would be very easily solved. Branches of these "divisional banks" may as in the case of the provincial banks, have to be established at various centres of industrial importance within their regional limits. The creation of only one central institution in the capital city of the major provinces or centres of the proposed "divisions" will not obviously be of much help to any person or body of persons in the mofussil, intending to start a small or middle-sized industry, but unable to do so for want of sufficient block or working capital, for it is almost certain that the provincial or divisional bank will consider such proposals too insignificant and rather too numerous even to be taken into serious consideration. On the other hand, it cannot be denied that at present there is hardly any scope for the establishment of an industrial bank in each of the administrative districts of all the provinces of India.

The scheme set forth above is primarily designed for establishing such financing agents as may have the necessary equipment for providing the industrial enterprises with their requirements of fixed or block capital which in effect call for long-term investments.

As regards the working capital of the industries, the number and resources of joint stock banks in India are admittedly quite insufficient even for meeting these current needs of the industries. For this purpose, the Committee of the Chamber would suggest that the system of licensed warehouses should be instituted. Firms requiring temporary accommodation would store their raw products or manufactured articles in these warehouses and the receipts issued against them should be used as collateral for loans which commercial banks would be able to make on the strength of covered bills. If the proposed Central Reserve Bank is empowered to rediscount these bills, when they have only about fifteen days to run, a corresponding portion of the burden will be borne, when necessary, by that institution, and industry will find the means for securing requisite accommodation. If the industrial banks should find themselves in possession of funds in excess of their long term commitments, there would be no objection to their investing them in furnishing short term credit to commercial firms.

The main function of industrial banks should, however, be to provide fixed or block capital to the new or old industries, and the recommendation of the Industrial Commission, that the larger portion of the industrial business of industrial banks should be confined to the provision of working capital, does not merit approval.

Suggestions have already been made as to the nature and extent of the help which Government should extend to these banks. In return for this, and in order to ensure that the investments by the banks are made in such a way as not to be prejudicial to the interests of the general public, Government should reserve the privilege of adequate representation on the directorates of the banks, which should also consist of representatives of the financial

commercial and industrial interests of the respective areas served by them; shareholders, of course, should have a proportional representation.

Statutory obligations and restrictions should be placed on the business of the banks regarding the extent of investments in particular industries or group of industries, and also regarding the "national" character of the industrial enterprises receiving help from the banks. Limit, for instance, should be laid down on the extent of non-national participation in the share capital of the industries which the banks may be called upon to finance, and also in that of the industrial banks themselves.

II. Finance of Foreign Trade.

Q. 1. The financing of foreign trade in India is at present an exclusive function of several non-Indian exchange banks of various nationalities, with their head offices situated abroad. These banks are very strongly organised against other banking agencies and their enormous capital resources make it impossible for all but an equally formidable institution to enter the field of exchange business, which the established banks have come to regard as their privilege sphere of business. The non-Indian character of these banks precludes the possibility of bringing their actions into line with the dictates of national interests and has, naturally, created a bias against the children of the soil leading the banks to confer some distinct advantages on the non-nationals carrying on either export or import trade in India. The difficulties confronting Indian traders are directly traceable to this bias and differential treatment accorded to various sections of the commercial community. The Committee of the Chamber have received information from some members that without confirmed bankers' letter of credit from abroad, no credit facilities are available from any important banks in Calcutta. The reasons assigned for such a serious handicap are: firstly, the predominance of European officers in the banks, and secondly, the non-existence or insufficiency of Indian banks. As a rule, for the shipment of food products such as rice, tea, spices, etc., confirmed bankers' credit is not available and business is done generally after inspection at the port of destination, *i.e.*, the port from which the export is made. The Committee of the Chamber are of opinion that as the profits in such business seldom exceed 5 per cent. the banks can, if only they like, safely finance 75 to 80 per cent. of the value against shipping documents and also against other securities, if necessary.

Q. 2. The credit instruments which are used in this country in relation to foreign trade have nothing of the nature of any remarkable characteristic of their own. In fact these comprise the commonly known bills of exchange and bills of lading.

Regarding facilities for clean credit, it has been brought to the notice of the Committee that when confirmed letters of credit are not available and, when drawers have to draw not on the bank of the drawee but on the drawees themselves, banks in Calcutta generally refuse to allow any credit facilities to Indian merchants but will only take the documents for collection. Here again the Committee have noted an unmistakable bias against Indians, as the above method of operations limits, in effect, the trade by clean or documentray credit, to European merchants alone.

Q. 3. Regarding the existing storage facilities, it has been suggested to the Committee by some members of the Chamber that bonded warehouses should be established by Port Commissioners, where cargoes can be stored

without paying the heavy and unnecessary charges made by banks on account of transportation and insurance. It is contended that the charges of breakage under such arrangement will be considerably minimised. Another suggestion has also been put forward that some bonded warehouses should be declared free port warehouses, where facilities would be provided for storing goods without paying custom duties in advance.

III. Regulation of Banking.

Q. 1. The Committee of the Chamber are in favour of audit and examination of bank accounts by examiners,but they would suggest that such a scheme should provide for a parallel audit along with that carried on at present by professional accountants and auditors. The proposed examiners should be appointed by the Finance Member of the Viceregal Council working in conjunction with an Advisory Committee. The Committee should consist of members representing interests connected with agriculture, trade, industry and banking. The chief executive of the Central Reserve Bank should be an *ex-officio* member of the said Committee. As there are no all-India organisations for agriculture and banking at present, members representing these interests may, for some time,be nominated by the elected members of the Central Legislature under specified rules, drafted specially for the purpose. The number of members will have to be ascertained after a careful examination of the claims of various interests in order to ensure that all of them are fairly represented on the said Committee. The Committee of the Chamber would, however, observe that the appointment of the proposed examiners should not signify a mere duplication of the audit of banks which is now being carried on by professional accountants quite satisfactorily, except in rare cases of connivance with frauds committed by those responsible for the actual management of banks. The function of the examiners, acting under the Finance Department with a special Secretary for the new portfolio, will be, in the main, executive with powers to carry out the policy, initiated and sought to be imposed by the Finance Member as advised by the Advisory Committee. Many of the functions of the examiners will be such as devolve on the Associations of Bankers in other countries, specially those of Canada and Australia. In India the conflicting interests of various groups of banking institutions preclude the possibility of the voluntary establishment of any comprehensive association, to which the many important functions of bank examiners could be safely confined. The appointment of such examiners, therefore, will mean for the banks a certain degree of outside control which, in more favourable conditions and under a better system of banking organisation, may be justly resented by the banks for which the examiners are proposed to be appointed.

As it is not proper that the appointment of examiners should entail any fresh financial burden on the banks, and further as the examiners are proposed to be appointed admittedly to promote some national interests with reference to banking, the Committee would suggest that the remuneration of the examiners should be paid up out of the exchequer of the Central Government.

Among the qualifications of the bank examiners, the greatest importance should be attached to the fact that they are fully conversant with the theory and practice of banking, and capable of taking a comprehensive view of things in their relation to varying conditions. In fact these examiners will be the agents of the Finance Member working on the field. A detailed list of functions which may be conveniently allotted to such examiners has been set forth, at length, in Chapter VII of Mr. B. T. Thakur's book entitled "Organisation of Banking" (2nd Edition, 1929). The Committee endorse, the scheme

propounded by the author in the books, with certain reservations. They do not consider it safe that the examiners should be vested with such plenary powers of control as have been advocated by Mr. Thakur.

Q. 2. The Committee do not approve of any restrictions on business, which may thwart the development of banking in the country. There are some limitations, however, which may be advocated on the ground that they will inspire greater confidence in the customers, and enhance the volume of business so as to make the limitation acceptable to the banks in the long run. Such limitations refer, in the case of commercial banks, to the requirement of maintaining a minimum percentage of cash reserve and further to certain conditions controlling the grant of advance to the directors, or to concerns in which such directors may happen to be interested. Provisions may also be made for ensuring the liquidity of investments.

The restrictions to which industrial banks will have to be subjected have been already referred to.

A certain degree of control will undoubtedly have to be exercised over the Central Reserve Bank by enforcing restrictions similar to those now imposed on the Imperial Bank of India, particularly with regard to its investment policy.

Q. 3. In the opinion of the Committee the use of the word "bank" should be confined to corporations registered in and outside India. In a country like India, where the average man is quite innocent of the technique of banking, particularly such of them as have a direct bearing on the rights and liabilities of banks, it is not without some meaning that indiscriminate use of the term "bank" should be prohibited by law. The restriction of the use of the term to registered corporations would at least assure the depositors and other creditors of the banks that such institutions are open to periodical inspection by expert officials and professional accountants.

Regarding private firms in India doing banking business the Committee would suggest that such of them as are prepared to accept the scheme of official inspection and undertake to submit periodical returns regarding their state of affairs may be granted the privilege of using the appellation "banking company" to distinguish them from the registered corporations previously referred to.

As to the Indian branches of foreign firms and companies doing banking business in this country, the Committee are of opinion that these should be subjected to the same provisions of law as the exchange banks, regarding which further observations are made in reply to question 5 below. The restrictions contemplated above should be embodied in a special Bank Act; the provisions whereof should be enforced by the bank examiners. The latter may be vested with some special powers to deal with cases which are not sufficiently covered by the existing legal enactments like the Indian Penal Code, the Indian Companies Act, etc. The Committee would, however, insist that the bank examiners should in no case be authorised to override the powers of the existing judicial authorities by taking much of the executive power into their own hands, but should, rather, make it a point to take advantage of the judicial machinery for checking infringements of law for which adequate provisions will have to be made in the Bank Act itself.

Q. 4 & 5. The *laissez faire* attitude of the Government of India to all problems of banking has seriously affected the prospects of indigenous banks, by enabling their foreign competitors to create enormous vested interests over which they are now sitting tight. This has been primarily responsible for the fact that any Indian bank, however well managed it may be, finds it extremely difficult to take over the exchange business which is yielding enormous profits

to non-Indian companies year to year. Nowhere except, perhaps, the United States of America prior to the passing of the Federal Reserve Act of 1913, has any Government viewed unconcerned such a lucrative branch of the banking business being persistently monopolised by non-national concerns. Even the United States of America have lately become conscious of the national loss which accrues from an attitude of indifference to such questions of foreign monopoly, and to-day the foreign banks and their branches in the United States are hedged in with various limitations. The American example should open the eyes of the Government of India and be a source of inspiration to the latter for removing their hesitancy with regard to a policy of active interference.

It is not, however, the examples of foreign countries alone which lend support to the contention that the operations of foreign banks in India should be brought under control. There are some special features in the present banking organisation of the country which call for some sort of Government interference. Firstly, as pointed above, it directly conflicts with the interests of national economy that the exchange business should permanently remain a practical monopoly in the hands of foreign institutions; so it is meet and proper that this monopoly should be undermined, at least, so far as it is due to any differential advantage enjoyed by the foreign banks in comparison with Indian banks, by such measures as have been adopted by other advanced countries. Secondly, a certain degree of control appears to be imperative in view of the fact that the exchange banks frequently enter into competition with indigenous banks in matters of the finance of internal trade. In such circumstances, it is more a question of equity than it is one of national interest that foreign banks should submit to statutory provisions similar to those which now regulate the operations of Indian banks, particularly with reference to the preparation of annual accounts, submission of returns, etc.

A provision of fundamental importance, which should be made with regard to the foreign exchange banks, is that these institutions should be legally debarred from attracting local deposits, in the same manner as has been adopted in the United States of America.

Such and other measures of control call for the existence of a definite legal enactment and a competent administrative machinery to enforce the provisions of the same. The Committee of the Chamber would suggest that the Finance Member of the Viceregal Council together with the Advisory Committee should be vested with statutory powers to issue licenses, which alone will authorise the exchange banks to carry on their business in India, subject to their depositing a statutorily fixed minimum of approved securities with Government. Such requirements, for special permission to commence or continue business, should not be resented by the exchange banks as these are actually in force even in such advanced countries as Japan and Italy. The licenses should be made renewable periodically, say at the expiry of every financial year, after a close scrutiny of the fact that the provisions of law binding on the exchange banks have been strictly complied with. When the Central Reserve Bank is constituted, some of the restrictions now imposed on the Imperial Bank should be withdrawn, provided, however, that the privilege, of Government deposits with it, is limited in size and becomes, therefore, subject to a much less risk than now.

Q. 6. It is evident from the replies to the foregoing questions that a special Bank Act should take the place of the Indian Companies Act for controlling the operations of banks in India. There are, of course, countries like France where banks, along with other corporate institutions, are controlled by the same Companies Act; but such examples can hardly be followed with safety

in India, where adequate development of banking is not likely to be fostered and expedited by any measure except that of State patronage coupled with a certain degree of State control. The absence of proper safeguarding measures has placed large powers in the hands of management, throwing many banks in highly embarrassed situations and even precipitating the ruin of some of them. It, therefore, seems necessary that some special provisions should be made in the proposed Bank Act with particular reference to the point suggested in the questionnaire.

With regard to capital, the Committee would observe that the statutory minimum should be made as moderate as possible, as otherwise the development of banking, specially in mofussil towns, would be seriously impeded. Having in view the large number of loan offices in Bengal, their suggestion on this point that the statutory minimum of paid-up capital should not in any case exceed rupees fifty thousand deserves attention. Provision may be made that the amount of capital offered for subscription should not be less than 1/3 of the authorised capital and that shares should become paid-up to the extent of 75 per cent. within one year after issue. The question of the maintenance of reserves, is, in the opinion of the Committee inseparably bound up with the problem of establishing a Central Reserve Bank with which the bulk of the reserves of the ordinary banks should be deposited to avoid multiplicity and dissipation of reserves. The legal proportion of cash balance to time and demand liabilities should be calculated on the basis of 5 per cent. of fixed and 15 per cent. of current deposits. The Committee recommend further amplification of balance sheets, with particular reference to the investments and advances of all banks and suggest that they should furnish monthly statements of their Indian business.

Q. 8. Failures of banks in India in recent years have been principally due to inefficient management, irrespective of whether the banks were managed by Europeans or Indians, as is borne out by the failures of the Alliance Bank of Simla and the Bengal National Bank. The inefficiency of management has been responsible in each case for bad investments ultimately bringing the banks to ruin. In the opinion of the Committee the recurrence of such failures will be to a great extent avoided by the appointment of examiners who shall have to keep a constantly vigilant eye on the operations of the banks. Where banks come to grief for want of adequate liquid funds to meet an unforeseen demand for heavy withdrawals, timely help by the Central Reserve Bank providing rediscount facilities will enable them to avert a failure.

Q. 9. The Committee of the Chamber endorse the view that circumstances at times arise which demand that a bank facing difficulties should be amalgamated with another more financially solvent and sound institution for avoiding liquidation, which often gives a shaking to the banking system as a whole. The amalgamation of the Tata Industrial Bank with the Central Bank of India affords perhaps the most brilliant example in this country of how the business of a tottering bank may be taken over by another without in any way jeopardising the financial solidarity of the latter. The Committee of the Chamber are aware that in all advanced countries, the banking system is at present undergoing a process of rationalisation which is reared upon an amalgamation of competing banks. Such a process of rationalisation is practically unheard of in India and may not be favoured, by the banks so remarkably individualistic in their outlook, for several years to come. It is much less difficult, however, to induce a bank, put in a serious plight, to be merged in another bank, and the agency most competent to foster a movement in this direction is an Association of Bankers started on the lines of those in Canada

and Australia. Where reconstruction of the bank is feasible, the initiative and help must come from the Central Bank which shall be a national institution acting as a Bankers' Bank.

Q. 11. After what has been stated in the replies to the preceding questions, specially with reference to the control of banks, the Committee of the Chamber do not consider it necessary that any distinction should be made between current accounts and other deposits in the matter of protection of depositors; nor do they have any suggestion to make for creating a special class of deposits other than those known at present.

V.—General Banking Organisation and the Money Market.

Q. 1. Compared with the economically advanced countries, like Europe and the United States of America, India possesses at present a mere apology for an organised money market. There are banks and bankers scattered all over the country but no attempt has hitherto been made to regulate their course of action so as to allow a free scope for the forces of demand for and supply of money and credit. An organisation among the various banking institutions of a country is essentially necessary for more than one reason. Firstly, it provides safety to the individual banks, in so far as it ensures reliable extraneous help in times of crisis; secondly, it imparts maximum productivity to the banking resources of the country by proper mobilisation according to the needs of time and places; and thirdly, it can effectively maintain the price level and so the steadiness of the commodity markets, by bringing all credit agencies under the rational control of some controlling agency like a Central Bank.

In India the establishment of such a money market has been rendered impracticable by the absence of any central agency co-ordinating the functions of the various banking institutions. The central agency was for long known, in the history of the banking world, to be equivalent to a Central Bank although no uniformity was claimed with regard to the ownership and control of such an institution. The establishment of the Federal Reserve Board of the United States of America practically demonstrated, however, that the functions of control could in a large measure be divorced from ordinary banking functions and vested in an administrative agency which would look exclusively to the broad principles of financial policy and effectively carry out the same, for which it was to be endowed with the necessary statutory powers. Central banking has, therefore, come to denote in the modern banking literature either of these two systems *viz*: (1) that prevalent in England and the continent of Europe and (2) the American model. Apart from the ordinary functions of the Central Bank, the extraordinary services of such an institution to the nation were demonstrated by the Bank of Japan which successfully handled the collapse of banking credit in 1927, and saved the financial interests from the panic which follows such crisis.

In India, the problem of a Central Bank is not new and it has, for times without number, been pressed on the attention of Government ever since it was so strongly advocated by Mr. J. M. Keynes of the Royal Commission in 1913. The demand was originally made for finding a solution to some currency problems and had little or no reference to the question of providing adequate banking facilities to the people at large, far less to that of setting up an institution for regulating the expansion and contraction of currency

and credit. The exigencies of the War proved the inherent defects of the banking system of the country and led to the establishment of the Imperial Bank of India, amalgamating the three Presidency Banks of Bengal, Madras and Bombay. The bank was, however, not endowed with the power of issuing notes which has been retained a monopoly in the hands of the Currency Department of the Government and no real control has so far been established by the bank over other constituents of the Indian money market.

This lack of control over, and cohesion among, the various constituents of the Indian money market was stressed by the Hilton Young Commission so late as 1926. The Commissioners proposed to remedy the defect by setting up a Reserve Bank which would bring all joint stock banks within a single organised system. Special measures were recommended by them for tapping the hoards of idle money lying scattered among the masses, which, being never pooled in any bank, must of necessity put a clog on the credit policy of any currency authority, be it a bank acting as fiscal agent to Government or Government themselves. The recommendation of the Hilton Young Commission was embodied in the Reserve Bank Bill of 1928 which was dropped by Government even before it could reach its final deliberative stage. The withdrawal of the bill has had the effect of cutting at the root of the most potent factor which could bring into existence an organised money market in this country.

The old controversy, as to whether a Central Bank with effective powers of control should precede or follow the establishment of an organised money market, need create no difficulty and in fact may be ruled out of consideration in the light of the American example. The Federal Reserve Act of 1913 is a standing challenge to the *laissez faire* policy of English banking, in so far as it proves that where the control of a money market cannot be left to the care of conventions without unduly postponing the establishment of such control, resort may have to be taken to some special legislation for expediting the process and achieving the purpose of setting up an organised money market.

The American example may serve the purpose of an object lesson to India, as in the money market of this country lack of cohesion among the various constituents is even more pronounced than what it was in the United States on the eve of the passing of the Federal Reserve Act. The existing conglomeration of various banking agencies may be transformed into an organised market, only if the whole subject be brought within the purview of some special legislation of a comprehensive character. Such a legislation, in the existing circumstances of this country, must provide for the establishment of a Reserve Bank with such powers and functions as were contemplated in the official bill of 1928. No spasmodic action or piecemeal legislation will improve the situation, so long as the problem is not boldly tackled by Government. In India, the problem has gained additional importance in view of the fact that in this country the re-organisation of banking has proved itself, through failures of various experiments, to be the *sine qua non* of a permanent solution of her currency problems. The Committee of the Chamber, therefore, cannot too much emphasise the need for establishing a Central Bank under some special statute.

It is, however, futile to expect that any special legislation will by itself remove all the defects of the existing conditions of the money market. In fact its operations may be rendered absolutely nugatory by other conflicting forces. In India, the success of any banking legislation, designed specially for the purpose of securing better organisation for the money market, can be

assured only by Government whose financial operations have in recent years been a fruitful source of disturbance in the money market and inconvenience to *bona fide dealers* in money and exchange. Such operations are related to Government's policy regarding the flotation of long term loans and the issue of short term Treasury bills. The Committee of the Chamber are most emphatic in their opinion that unless administrative measures, of the Finance Department of the Government of India involving very large amounts, be properly regulated, in accordance with the interests of the money market, no legislation will prove itself so resourceful as to raise it to the status of the organised money markets of other advanced countries.

The Committee are aware that it is perfectly legitimate for Government to resort to the practice of occasional sale of Treasury bills in the market for making up their deficiencies in ready cash, pending the collection of revenues. There is no justification, however, on the part of Government to pay unusually high rates which are often paid ; for these bills as it is, Government invariably paid a rate, generally 1 per cent., and sometimes even 1½ per cent. higher than the rate at which banks could secure deposits for a like period. As the price at which the bills were issued has also been unduly favourable to the investors who are mostly the exchange banks using Indian deposits for the purpose, their issue has resulted in making the position of the banks worse. Moreover, the time of issuing these bills has not always been very happy. Cases have occurred when, even if Government needed no money, their exchange policy necessitated the sale of a large amount of Treasury bills in the market. Such an unusual procedure was sometimes due also to the admittedly low cash position of Government. Their intention of strengthening their cash position and their anxiety to maintain the exchange at 18*d.* compel them not only to issue the bills at an unfavourable rate but also to call for tenders on unseasonable occasions, causing much disturbance to the market.

That the heavy Treasury bill borrowings of Government were responsible at least to a considerable extent for the rise in the Bank Rate last October, first from 5 to 6 per cent. and then from 6 to 7 per cent., has been admitted even by the Central Board of Governors of the Imperial Bank, for which reference may be made to the report of the bank for the half year ended 31st December 1929. The effect, of high rates of interests for the bills and of low issue prices, has been to make the position of the banks difficult ; they have been unable to attract depositors with lower rates of interest. The Indian banks which are carrying on business, in the face of competition by the Imperial and exchange banks thus find another strong rival in Government and it is no wonder that in the face of these odds the banks have not been able to make a better show.

The banks have also been very badly hit by the depreciation in the gilt-edged securities which has partly been due to the Treasury bills policy and partly to the loan policy of the Government. Last year Government floated a rupee loan with so many attractive features tagged on to it that the immediate result of the announcement of the loan issue was to depress the previous issues. The quantity of such papers in the vault of ordinary banks is so great that depreciation of the security market has spirited away, as it were, much of the reserves of these banks. The money market has thus, in several ways, been threatened with disorganisation by the operations of Government. The various needs of Government are seriously competing with the various needs of trade, industry and agriculture for obtaining

money from the same limited resources of the Indian money market. While both the demands remain unsatisfied, the rate of interest and the Bank Rate rise up giving spasmodic shocks to the money market.

The remedy, which the Committee would suggest in these circumstances, is that not only should the Government's financial policy be brought in line with sound economic doctrines and true national interests but that Government should take measures to ensure the stability, under normal conditions of the prices of gilt-edged securities and as far as possible try to tap the so-called non-money market sources. This latter happened, rather accidentally last year when the major part of the ready cash realisation of the rupee loan for Rs. 27 crores, came from the Indian States, which had so far been outside the jurisdiction of the money market.

There are, of course, other non-money market sources, and it is for Government to explore all such sources, so that their financial operations may be so carried on as to cause the least disturbance to the money market. Government should also seriously consider whether they cannot minimise their requirements for capital with due regard to the needs of the country. The Committee of the Chamber would in this connection refer to the observation of the Controller of Currency made in his Report for the year 1923-24 "that the Government of India's borrowings since the flotation of the first Indian War Loan in 1917 (up to 1923) were for unlimited amounts with the result that the flow of capital into industrial or other undertakings was seriously restricted" (P. 20).

While urging for legislation and proper control of the financial operations of the Government of India, the Committee of the Chamber are aware that an ideal organisation of banking system in this country cannot safely rely on these extraneous factors alone. Along with these measures, the system must develop strength from within, by fostering *esprit de corps* among all the constituents. At present the various banking institutions are classified under mutually exclusive and even competing groups. Even within the same group the policy of isolation is to-day the rule rather than the exception. This policy of exclusion and competition has considerably undermined the strength of the banking organisation in this country particularly in the absence of a Central Bank. As stated above, the exchange banks form a close body and do not consider it part of their duty to co-operate in any manner with the other banks in India. They have no objection, for example, to taking loans from the latter when money is tight, but instances where they have lent money to them are very rare. Similar instances in other activities will readily occur to those who have watched their operations.

So far as the ordinary Indian joint-stock banks are concerned, they have not set up any organisation as yet. This has often accentuated their helplessness in periods of acute crisis and the time has come when, promoted by sheer self-interest, they should organise themselves into a closely knit group preferably on the lines of the Canadian Bankers' Association for eliminating rivalry and unhealthy competition. Absence of a Central Bank in Canada has been responsible for the bestowal of unique powers on the Association of Chartered Banks such as, in this country, should be most fittingly delegated to the Reserve Bank. But still there are other features which may be emulated by a Bankers' Association in India, especially those relating to the methods of business and liquidation of banks which have failed. Here again on the lines of the Canadian example, aid of the

legislation may be invoked for making a provision to the effect that all recognised banks must become members of the Association.

The indigenous bankers have in many places several organisations of their own but it is necessary that their relation with the central money market should be closer and more intimate. This can to a great extent be effected through the Central Bank which should provide rediscount facilities to the shroffs on a very liberal basis. With the general market their relation can be made more intimate by providing them access to the clearing houses, regarding which further observations are made in the following paragraphs.

Q. 3. Clearing house organisations in India are, at present, far from satisfactory. There are, in all, 11 of them, each in a principal city—and all of them have been set up on the English model, confining their operations only to the daily exchanges of items and settlement of balances among the member banks. In all cases, the actual working of clearing house institutions is conducted by officers of the Imperial Bank which provides the necessary staff. There is a committee for each clearing house consisting of representatives of such local banks as are admitted into its membership. The heads of the Imperial Bank branches at different centres work as the presidents of the respective clearing house committees. New members are admitted after close scrutiny of their balance-sheets,—being proposed by one member and seconded by another and after a declaration by the proposed bank that it has the necessary qualifications for membership. Such a rigid procedure may be conceded in view of the fact that the membership of clearing houses is saddled with heavy responsibilities in so far as the actual clearance of balances between the various member banks is often deferred overnight, although credit is taken for balances awaiting payment. As seen from this angle of view the organisation of the clearing houses does not seem to be defective. Still it is alleged that the clearing house committees consisting mostly of the European bankers have sometimes prevented Indian banking houses from becoming members, the small number of existing Indians on the committees being often outvoted. The Committee of the Chamber would, therefore, suggest that the alleged discrimination made against Indian banks for admission into the membership of clearing houses should be made the subject of a careful examination.

The Enquiry Committee may consider the feasibility and necessity of extending the scope of the functions of Indian clearing houses, specially along the lines of Canada. The extraordinary functions of the Canadian clearing institutions, which owe their origin mainly to the absence of a Central Bank, may not be adopted in India as the need for establishing a Reserve Bank in this country is strongly emphasised, by both official and non-official opinions, as essentially necessary for all banking reforms. There are some other functions of the Canadian institutions, however, specially those relating to the liquidation of banks, fixation of deposit rates, etc., which it may be considered useful to adopt in this country as well.

Q. 4. The importance of Bank Rate as an economic factor and its bearing on the external trade of a country, which has been engaging the serious attention of Governments in all advanced countries, specially as a post-war development, is scarcely recognised in India. In the absence of a full fledged Central Bank, the Bank Rate in this country has now come to denote the rate of the Imperial Bank. The movements of the rate of this bank have practically no reference to the requirements of trade and industry and it may be seriously contended that the Bank Rate in India is rather too intimately connected with the loan operations and the exchange policy of Government.

The rate until recently was lowered when Government floated loans, and raised when it was considered necessary to tone up a dull exchange. The rate is too much dependent on the amount of public deposits which in effect has brought it under the direct influence of Government control. A reduction of public deposits in the Imperial Bank on the ground, it is alleged, of supporting high exchange, brings about a fall in the cash percentage of the bank and so forces its hands in the matter of raising the Bank Rate. Recently the rate shows a tendency of remaining unduly high throughout the year and not fluctuating seasonally as a few years ago.

It may be pertinently observed that the so-called Bank Rate is not always a reliable index of monetary conditions generally in the banking and financial circles, although it may be an indicator of the cash position of the Imperial Bank. This is borne out by the fact that when in last October the Imperial Bank raised its rate first from 5 to 6 per cent. and then from 6 to 7 per cent., interbank call money was cheapened from over 3 per cent. to 2 per cent.; the official rate was actually pushed up when money rates had already fallen, an action which under no circumstances can be construed as proper and legitimate on the part of the currency authority. The action of the Imperial Bank has not been guided by any consideration of the interests of trade and industry of the country. Such consideration would hardly warrant the raising of the rate in October 1929, and the same would lend no support to the continuance of the existing high rate. One of the reasons which the authorities advanced in justification of their conduct was the necessity of protecting Indian funds from being attracted by a higher rate to London. "The high Bank Rates ruling in the U. S. A. and Great Britain" it was said "necessitate protective action in this country". This explanation would appear to be inadequate as the stringency in the Bank Rates at other centres has passed away and in spite of the reduction of the official rates, both in London and in New York to 3 per cent. and 2½ per cent. respectively, the Imperial Bank Rate remained unchanged at 7 per cent. even up to the 3rd April 1930, when it was lowered to 6 per cent. at which level it still (*i.e.*, middle of July) remains.

Bank Rate in India is further extremely ineffective in its relation to the bazar rates which are often at marked variance from the official rate. The disparity in the two rates points conclusively to the fact that the Imperial Bank Rate is not a reliable indicator of the monetary conditions generally in the banking and financial circles. This in turn is due to the fact that the Imperial Bank is not a real Bankers' Bank. The multiple reserve system prevailing in India, by diffusing the banking reserves of the country, prevents the Imperial Bank from effectively controlling the money market. The importance of pooling the diffused reserves in a central fund was realised by the Hilton-Young Commission when they recommended that the cash balances, not only of Government but also the reserves of all banks in India, should be centralised in the hands of a Reserve Bank, enabling it to acquire a real and effective control over the whole money market.

The Committee of the Chamber would like, in this connexion, to refer to the policy of the Federal Reserve System in controlling credit in the market. The Committee are conscious of the difference in the Indian and American conditions, and also of the alleged failure of the Federal Reserve System in controlling credit. If in spite of these the Committee here refer to the Federal Reserve policy, they do so in the hope of drawing the attention of the Enquiry Committee to the possibility of adopting one or other of the various criteria adopted by the Federal Reserve System in formulating their credit policy

The Federal Reserve Board when approving the change in the rate of discount of a Reserve Bank consider among other things :

(a) changes in the total volume of credii in relation to the usual rate of growth which goes forward from year to year ;

(b) the way in which credit is being used ;

(c) the condition of business (having its bearing on unemployment);

(d) the movement of all kinds of prices including wholesale and retail commodity prices, security prices, rents, wages, etc., and

(e) international conditions including their influence upon the movement of gold.

Q. 7. (a) One of the defects of the modern Indian banking developments has been that the banks while showing enterprise, in the sense of starting business in a line and on methods wherein only Europeans had shown proficiency, have been content to be more imitators of European models. As, however, their European compeers had been much earlier in the field, gathering larger and surer experience and building up for themselves an impregnable position, Indian banks were in the nature of pale ineffectual imitations. They did not show any great originality or initiative in chalking out new lines. Fruitful results, for instance, might have attended their career if they had combined the efficiency of European banking with the economy of indigenous bankers. In the absence of such adaptation to local situation, Indian banks, which have not yet attained that efficiency with which the exchange banks are being managed and which also lack the simplicity and economy of the indigenous bankers, have been at a disadvantage in competition both with the indigenous bankers and with the exchange banks. The banks in such circumstances will have to explore the most productive course of internal economy being stimulated by their own enlightened self-interest. European managed banks themselves may find it more economical to employ Indians in responsible posts and reduce overhead charges.

(b) The charging of rates on advances is a relative phenomenon being closely related to the supply of loanable capital. In India, banking resources, proverbially scanty, are being put to a serious strain owing to the financial operations of Government.

The latter have been responsible for a considerable diversion of funds which would otherwise have been drawn to the ordinary joint stock banks. The high rates of interest allowed on Government loans and Treasury bills have compelled the banks to raise their rates on advances to businessmen and industrialists.

It has already been suggested in reply to a previous question that the borrowings of the Government should be so regulated as not to affect considerably the loanable cash of the joint stock banks demanded for ordinary commercial purposes. This would enable the banks to charge lower rates for their advances.

There is one suggestion which would perhaps be somewhat controversial. It is the experience of co-operative banks that the restriction regarding the maximum rate of dividend payable on share capital has made them furnish accommodation to their clients on a much cheaper basis than would otherwise be the case. Similar restrictions on banking concerns would enable the public to obtain cheaper loans and it would be possible for the banks which make very good showing to pass surplus profits to the reserve funds.

(*c*) & (*d*). The stability of banks can be assured by no other agency so effectively than a Central Bank set up on the lines proposed by the Royal Commission of 1926. Legislation with regard to the audit and publicity of their accounts may save the banks from the dangers of mismanagement but their solidarity can be ensured only by bringing them together under a sound organised system nourished and sustained by an apex bank. The nature of the business of banking itself precludes banks in isolation from maintaining their strict individuality. A single bank coming to grief through faulty management may spread infection and adversely affect the interest of others run on more sound lines by creating a panic in the money market. It is, therefore, in the interest of the banking system as a whole that all the constituents should be brought under the effective control of a Central Bank following the ideals and methods of a national institution. Such a bank would by virtue of its position be able to attract deposits of surplus money from all the member banks and turn the same to good account by timely and proper mobilisation to places where it may find scope for profitable employment.

Q. 9. There is a distinct lack of variety in the negotiable papers known in the Indian money market. The use of bills is practically confined to the exchange banks. The ordinary joint stock banks accept only such papers as pro-notes and *hundis*, some of them situated in Calcutta lending also against title-deeds for creating an equitable mortgage. Other kinds of papers, whether agricultural or industrial, are practically unheard of in this country. This has necessarily restricted the credit operations of the banks making advances either against personal security or mortgage of real property and to some extent against insurance policies as well. Credit has been to a great extent rendered immobile and requests for loans are rejected even when the prospective borrower may have in his possession large stocks of goods of value exceeding several times the amount of loans demanded. The banks, having no expert staff to assess the value of stocks, are often disinclined to accept the same as security even when they may have large loanable funds in their vaults. These circumstances prove beyond doubt that there is some abiding defect in the credit organisation of the country which prevents the conversion of stocks into mobile credit. In the opinion of the Committee the defect can be removed by the establishment of licensed warehouses, staffed with experts, for grade specification of homogenous articles and valuation of sundry articles of manufacture. The receipts issued by these warehouses against articles brought to them, signifying title to the goods stored, may serve as the basis upon which a crop of negotiable papers both agricultural and industrial may come into being. Such papers would readily be discounted by the joint stock banks, as providing sufficient cover for advances made against them.

Q. 14. The position of Indian banks with regard to their present resources is very miserable. Whether it be the question of capital or of deposits, they do not stand comparison with the banks of any other country.

(*a*) With regard to capital, it is often suggested that foreign capital should be attracted for investment in Indian banks. The evil effects of foreign capital creating vested interests have been so much realised by Indians by this time, that the absurdity of the above proposal will be apparent even to a casual student of Indian economics. In no other country does foreign capital in the form of shares hold such a sway over the national trade and industry as in India, and while following in the wake of other countries India is seriously thinking of the prohibition of local investments of foreign capital except on

her own terms, it is rather difficult to believe that she will be persuaded to allow her banking resources to be augmented by capital other than her own. As, however, the lack of sufficient capital is keenly felt in her banking business as also in almost all business of the country, it will be necessary to make it one of the definite objects of her banking system to attract all the capital that is lying uninvested within her own borders. It will surely be an irony of fate if the banking organisation—which should have as one of its objects the replacement of foreign capital by indigenous resources— be itself financed by foreign capital.

But while opposing the investment of foreign capital in Indian banking business, the Committee of the Chamber have no objection to, rather they would strongly urge for, special banks like industrial and agricultural banks augmenting their resources by floating debentures abroad at suitable terms.

(*b*) Savings of the community may also be tapped by offering attractive terms to the investors but not at the cost of the safety of banks. Much may be done in this direction by properly conducted propaganda work. The opening of the savings bank departments, the introduction of the " home-safe " boxes, and the amendment of the Trust laws so as to enable the trustees of various funds to invest in "approved" banks, the last one particularly, for augmenting the resources of the agricultural and industrial banks (by subscribing to their debenture issues)—all these will result in supplying the banks with such funds as are now out of reach of the money market. It may also help the banks to attract more deposits if they take in some representatives of the depositors on the directorate.

(*c*) The receipts or at least a substantial portion of them from sales of cash certificates and savings bank deposits should be invested by Government in purchasing the debentures to be issued by the special banks.

(*d*) The location of the whole of the Gold Standard Reserve and a portion of the Paper Currency Reserve in London is also responsible in no small measure for the starving of the Indian money market. The Fowler Committee, on whose suggestions the Gold Standard Reserve was established, had recommended that the entire reserve should be kept in India in gold in liquid form, so as to be freely available for remittances abroad in case of an adverse balance. But in total disregard of this latter recommendation of the Committee, the whole reserve has not only been located in London—but also invested in sterling securities. The dangers which such investments may encounter owing to depreciation were apparent during the last war. The necessity of keeping at least a portion of the reserve liquid was realised by the Chamberlain Commission, while the keeping of a portion, not exceeding half, of the reserve in India was recommended by the Babington-Smith Committee. But Government have been consistent in their policy of rejecting the counsel even of their own Committees at least in this respect. Similarly, a substantial portion of the Paper Currency Reserve is also invested in London though this amount has gradually been decreased.

While earning interest, these reserves have been totally useless from the standpoint of the Indian money market ; and viewed from this angle, there seems to be no difference between these reserves and the capital that is often alleged to be hoarded in India. The Committee of the Chamber are emphatically of opinion that the resources of the Indian money market should be strengthened by transferring these reserves to India, and the huge amount of gold now being used to augment the resources of the London market should be made available for Indian industries, the development of her agriculture and the fostering of her trade and commerce.

A Note by the Bengal National Chamber of Commerce on the finance of the Coal Industry.

The fundamental fact which must be borne in mind, in any examination of the finance of the Indian section of the coal trade of Bengal and Bihar and Orissa, is that most of the enterprises are either proprietory or partnership as distinguished from public limited liability companies. Even where the undertakings are registered under the Indian Companies Act, the capital in some cases has not been subscribed by the public..

It is obvious, therefore, that the capital resources of the Indian-owned coal concerns are as a rule slender. What happens, however, is that the capital required for them initially, *e.g.*, lump sum considerations payable to the royalty receivers, cost of machinery, rails, tubs and buildings, etc., is found by the owners or partners of the colliery. But unlike any other industry, the demand for capital on block, in coal mining enterprises, is of a continuous character. A coal mine even after its initial development is in constant need of more and more development by way of the driving of main and subsidiary galleries, so as to keep the extracting facilities unimpaired. Herein arises the special problem of coal finance, namely, the finding of a fairly continuous supply of capital for block. In other words, in a colliery much capital must be sunk in the property even after the colliery has been brought into a full working order.

It will be realised, from the character of the colliery proposition handled by the Indian coal firms, that they are in difficulty in maintaining this continuous supply of new capital on block. When the margin of profit is high, it is possible to divert a part thereof for development but in an average and far less in a depressed market, it is impossible to make such diversions. For, in the case of financially weak owners, between capitalising current income and deteriorating the property by starvation of capital, there is little difference. What actually happens is that the coal firms have to borrow money from indigenous bankers by hundis for the periodical development of their collieries at so high a rate as 12 to 18 per cent. In 1919 when coal prices were higher, cases were reported, when money was borrowed for development by colliery proprietors on hundis at even a fancy rate of 24 to 30 per cent. Apart from the rate of interest it is noteworthy that money is obtainable only on hundis alone for a purpose which is avowedly a block investment.

Apart from the need of current working finance, the difficulty of the coal firms arises mostly from lack of organised marketing facilities for coal, as ideally exist in the tea and even to a satisfactory extent in the jute industry. Roughly, 30 per cent. of the Bengal coal is sold to the railways and other Government departmental purchasers. In their case, as well as in the case of other buyers of standing, bills are made out by the coal firms monthly but the payment is held over for a period of 4 to 6 weeks reckoned from the date of submission. In the case of other purchasers, bills for coal supplied on contract or against ready purchase lie over for a longer period, though on paper all bills are payable on presentation.

It is easy to imagine the strain on working finance which such delays of payment of trade bills mean to the coal industry. The solution of the difficulty seems to lie in the development of facilities for discounting of these bills. At present banks are reluctant to handle these bills. Only

casually banks make advances on cash credit account against these bills, but the advances, in cases where they are at all made, do not exceed 70 to 80 per cent. of the amount of the bill. Even when the bills are on Government departments, bankers are known to be reluctant, to make an advance, on the ground, that the drawer is not a party of standing. Again it has been said that legal difficulty exists for the banks in handling trade bills endorsed by the drawer-customers. Further, cases have occurred where certain drawees, either local bodies or Government departments, have declined to make payment to any party other than the drawer direct. We state here merely what the difficulties of the position are but we stop short of formulating any definite constructive proposals.

No. 49.

Letter No. 200/93, dated the 27th January 1930, from the Secretary, the Chamber of Commerce, Bombay.

My Committee have had under consideration the questionnaire issued by the Indian Central Banking Enquiry Committee and having carefully examined the questions in consultation with the Finance Sub-Committee of the Chamber they instruct me to submit replies as under.

I.—INDUSTRIAL BANKS AND CREDIT FACILITIES FOR INDIA'S MAIN INDUSTRIES.

Question 1.—State with reference to one or more industries which you have had opportunities to observe the credit facilities required with special reference to (a) *fixed capital expenditure or block, and* (b) *current requirements or floating capital.*

State also how far in your opinion these requirements are met by various types of banks and bankers and how far the present facilities of financing fall short of the actual requirements.

Answer 1.—(a) *Fixed Capital Expenditure or Block.*—In certain cases in cotton mill companies the block is financed by deposits or loans instead of by ordinary capital. The supply of capital for industrial development in India is somewhat limited and until capital is more easily forthcoming the danger of financing long term investments by means of short term money exists. It is perfectly legitimate to find a portion of this finance required for block by means of a debenture loan but this form of finance is not as popular in India as elsewhere, largely because the general public either do not appreciate the value of the security, or because this form of investment gives small prospect of appreciation in value—the latter consideration being a favourite aspect looked for by a large proportion of Indian public on this side of India. Until the capital market can be fed by investment trust companies or issue houses the difficulty, of mobilizing the capital that is available for industrial development, will remain. The managing agency system has done more to provide and attract capital into industrial enterprise than banks or trust corporations.

(b) *Current Requirements or Floating Capital.*—These are provided largely by advances from banks on personal security or liquid assets on the one hand, and by deposits from the public or the managing agents on the other. The latter system, which has the advantage of being simple in operation, even if dangerous of abuse, has tended to give way before the more modern method of advances from banks on adequate security. This is partly due to the losses, incurred by managing agents, of their deposits during the last few years, more particularly in the cotton mills of Bombay. On the other hand in places such as Ahmedabad, where conditions differ considerably from those obtaining in Bombay, the practice of financing floating capital by means of deposits from the public has proved to a large degree both economical and satisfactory. The disadvantages of the system of financing floating capital by means of deposits are most clearly seen in bad times when, owing to the public being nervous, deposits are liable to be withdrawn from good and bad concerns alike, thereby aggravating the position at a time when all resources are required to carry over what may be only a tmporary period of depression.

Question 2.—Different methods of financing and different classes of paper or documents are used in industries in connection with production, import and export. In some cases it is the buyer who finds the money himself or through his banker; in other cases it is the seller who finds the money for himself or through his banker; and in others it is the middleman, merchant, or commission agent who does this. Describe any prevailing trade or business practices relative to these which have come under your observation and suggest any improvements in the present organization which, in your opinion, will benefit the different classes of producers and merchants or the community at large.

Answer 2.—No answer.

Question 3.—Give particulars of the rates of interest which are charged at present on loans and advances and also of the different classes of securities which are approved by banks, financial houses and commission agents.

Indicate any difficulties experienced on account of lack of credit facilities or on account of high interest or discount rates or on any other account and suggest remedies therefor.

Answer 3.—Rates of interest vary with the nature of security, according to good or bad parties, and also in relation to the seasonal rise and fall of the Imperial Bank of India Rate.

First-class borrowers can obtain loans at the Imperial Bank Rate or at 1 per cent. over it.

The various classes of securities accepted by banks are: Government paper, municipal and port trust loans, prescribed railway shares, first-class industrial securities, usance bills and liquid assets or hypothecation of goods.

Question 4.—If in your opinion banks in India have not financed industries, large or small, freely, to what causes do you attribute their reluctance? Do you think financing of industries is possible by banks as they exist at present and by their present methods.

If not, do you suggest the establishment of any other machinery?

Are you in favour of trade banks, i.e., *banks which specialize in dealing with special trades?*

Do you favour the establishment of an industrial bank in each province?

If so, what constitution would you suggest for such a bank?

What are the facilities which in your opinion should be given to such a bank either by Government or any other agency?

Would you suggest any restrictions on the grant of loans by such a bank in order to secure reasonable safety for the bank while providing finance for industries?

Answer 4.—My Committee consider banks have financed industries as far as the security offered permitted. They are not in favour of any special measures for providing finance for industrial development by means of trade banks. Attempts in this direction, such as those of the Tata Industrial Bank in the past, have shown that the economic development of the country is not yet ripe for this type of specialized bank.

II.—Financing of Foreign Trade.

Question 1.—Would you state with reference to any trade that you have had an opportunity to observe, the credit facilities which are required and to what extent banks supplying these facilities fulfil the present requirements?

In your opinion, is there any class of merchants who are unable to secure all the assistance they need either in India or in foreign countries, and if so, could you give any reasons for this state of affairs ?

What remedies do you suggest ?

Answer 1.—My Committee have not observed any trade in which credit facilities are not adequately provided for by the exchange banks.

Question 2.—What are the credit instruments in use with regard to foreign trade ?

In what conditions is credit available against these documents and in what conditions is clean credit available ? What are the rates charged by the banks ?

Are there any seasonal fluctuations in these rates ?

What are the facilities existing at present in the export trade for discounting export bills ?

Are there any restrictions that you have to complain of ?

Have you any remarks to make with regard to the exchange rates which are charged for the conversion of rupee into sterling or other foreign currencies and vice versa, *or for the remittance of funds to and fro ?*

Answer 2.—The credit instruments in use in regard to foreign trade are demand and usance bills which are drawn D/A or D/P, payable in London or elsewhere. Clean credits are available in the case of customers of good financial standing. Rates vary according to the fluctuations in the international money market and the law of supply and demand.

Question 3.—(i) *Have you any suggestions to make with regard to :—*

(a) *the establishment of bonded warehouses,*

(b) *the present practice of port trust warehousing,*

(c) *the practice by banks of releasing goods on trust receipts,*

or

(d) *any other methods in vogue for the convenience and facility of merchants engaged in the import trade ?*

(ii) *Do the interests of the traders and the public suffer in any way through any defects in the present organisation, and have you any suggestions for its improvement ?*

Answer 3.—(*i*) (*a*) It is questionable whether licensed warehouses are at present a practical proposition, owing to the great diversity of the crops grown in the provinces and the large capital outlay involved.

(*b*) The present practice of port trust warehousing seems satisfactory.

(*c*) The existing system also works satisfactorily.

III.—Regulation of Banking.

Question 1.—Are you in favour of audit and examination of bank accounts by examiners ?

If so, how should these examiners be appointed and by whom ?

What should be the duties of such examiners ? What should be their qualifications and how should their cost be met ?

Answer 1.—My Committee are not in favour of the institution of any system which would tend to throw on the examiner/auditor any of the responsibility which should be borne by the staff and/or directorate. Any form of control or inspection which would in any way detract from the responsibility of the management is obnoxious. No loophole should be left for an unscrupulous or inefficient directorate to shelter themselves behind a screen of Government inspection or audit. My Committee are in favour of a rigid and periodical audit by practised competent accountants, whose report to the Board of Directors and not to any Board of Audit, should be the measure of responsibility for the careful observance of cautious banking. It might be mentioned that the certificate given by auditors should be more explicit as regards debts considered doubtful, the true market value of securities and the proper valuation of investments at the date of the audit.

Question 2.—Are you in favour of any kind of restrictions being imposed on the business of all banks ?

For example, should there be any restrictions of the nature imposed on the Imperial Bank of India under Section 8 of the Imperial Bank of India Act ?

Answer 2.—My Committee are not in favour of restrictions of any kind. Healthy competition for legitimate business is the best safeguard.

They are opposed to any restrictions such as are set out in parts I and II of the schedule being applied to banking generally.

Question 3.—In your opinion is it desirable that the use of the word " bank " should be restricted, and if so, what restrictions do you suggest ?

Also state whether you suggest any additional provisions for special application to (a) *a private firm in India doing banking business,* (b) *a branch of a firm whose head office is located outside India, doing banking business in India, and* (c) *a branch of a company whose head office is located outside India, doing banking business in India.*

Through what agency and in what manner would you have these provisions enforced ?

Answer 3.—Any institution calling itself a bank should be registered (see below) and regulations should prescribe the minimum amount of paid-up capital in *cash* in proportion to the authorized capital, and withhold the right to start business unless the minimum has been paid up.

A firm styling themselves bankers need not be similarly regulated as the credit of the individual must carry less weight and so be less liable to attract outside capital. Firms doing banking business in India should be compelled to keep a minimum cash ratio.

A branch of a firm doing banking business in India and whose head office is outside India should be compelled to keep a percentage of its current liabilities in cash or in Indian Government securities and the same should apply to a bank whose head office is outside India.

It would be desirable to have compulsory registration of all banks in some such form as was provided for under the Reserve Bank Act and if and when the Reserve Bank Act is introduced, this would be a suitable opportunity for inaugurating a list of *recognized* banks. This method would avoid the difficulty of defining generally what a bank is, which would be a very difficult matter. It also would achieve a panel of banks by way of privilege instead of by way of restriction. Any special conditions regarding audit or the form of public balance sheets would be drawn up as conditions to be imposed before any bank could get its name put up on the list of approved banks.

Question 4.—Are you in favour of defining by legislation or otherwise the sphere of operations of any class of banks, e.g., *co-operative banks, exchange Banks, etc. ?*

Answer 4.—My Committee think that the difficulties underlying such proposed legislation would largely detract from the object. The more competition the better, for the country, provided the institutions are sound, and my Committee see no reason for preventing an exchange bank from doing ordinary banking business in the country.

Question 5.—Do you think that foreign banks should not be allowed to do banking business in India unless they received a license ? What authority, in your opinion, should have the power to issue, renew and cancel such licenses ? What regulations should in your opinion be prescribed for governing the operations of such a foreign bank ?

Answer 5.—Seeing that the general cry is that India is deficient in banking facilities, my Committee see no good reason why any restrictions should be placed in the way of the expansion of banking, by an attempt to license foreign banks. At the same time they are of opinion that any foreign banks starting business in India should be compelled to fulfil the conditions laid down for recognized banks (*vide* 3 above).

My Committee consider that the Registrar of companies should be the Executive Officer to supervise this.

They see no reason to regulate the sphere of activities of such a foreign bank as its utility must be dependent on its stability and resources.

Question 6.—A Bank which is a limited liability Company registered in India is at present governed by the law of joint stock companies in India.

Do you consider that position satisfactory ?

If not, what additional provisions for special application to such banks would you suggest, particularly with reference to (a) *authorized and subscribed capital,* (b) *capital that should be paid up before business is started,* (c) *provision of reserves,* (d) *proportion of cash balance to time and demand liabilities,* (e) *publication of balance sheets, their form and frequency, etc. ?*

Answer 6.—There may be (as mentioned in 3 above) certain safeguards, which should be applied to banks other than those provided under the Indian Companies Act, in respect of auditor's certificate and the form of publication of balance sheets. My Committee consider a minimum paid-up capital might be stipulated and a half-yearly audited statement of the affairs of the bank might be insisted upon.

Legislation should provide for a minimum cash capital before commencement of business and a cash percentage to liabilities maintained with a Central or Reserve Bank.

Question 7.—Have you any suggestions to make for the regulation of expeditious liquidation and advance payment to depositors in case of failure of banks ? (Cf. *the case of the Alliance Bank of Simla.*)

Answer 7.—No. This can hardly be a matter for legislation.

Question 8.—Would you state the principal causes which in your experience or observation have led to bank failures in India ?

What remedies would you suggest to prevent a recurrence of such failures or to secure timely assistance in such cases ?

Answer 8.—(*a*) Insufficient knowledge of the theory and practice of banking amongst those responsible for the conduct of the bank's affairs.

(*b*) Insufficient provision of reserves and over-payment of dividends.

(*c*) Insufficient paid-up capital and too large a proportion of it held in immovable assets.

(*d*) Insufficient liquidity of funds, due in part to over-advancing on long term or lock-up advances.

(*e*) In certain cases to absence of business morality, resulting in losses due to fraud, or misuse of the banks' funds for financing those personally connected with the management.

The remedies must largely be in the shape of "bought experience" and education in the proper theory and practice of sound banking principles.

Question 9.—It has been suggested that in some actual cases in the past where banks have been in difficulties, some plan for amalgamation or reconstruction instead of liquidation would have been in the public interest. Would you state your views on this suggestion and would you recommend any provision for securing that, before liquidation proceedings are enforced, adequate opportunities should be given for exploring the possibility of arranging a scheme for amalgamation or reconstruction? If your answer is in the affirmative, please make suggestions as to the sort of provision which you have in mind.

Answer 9.—My Committee do not see how these matters can be treated except *ad hoc*. It is well known that in certain cases of anticipated failure the Imperial Bank has been able to do much to assist, but even then, as in the case of the Alliance Bank of Simla, although liquidation was deferred it could not ultimately be avoided. Amalgamation must remain a matter of free negotiation and no legislation can assist in what must remain an arrangement of mutual interest to the parties concerned.

Question 10.—It is complained that the cost of liquidation is high at present. Have you any suggestion to make regarding this point and for the reduction of such cost?

Answer 10.—No answer.

Question 11.—Are you in favour of making any distinction between current accounts and other deposits in the matter of protection of depositors and do you suggest any legislative measures for the purpose?

Do you recommend the creation of a special class of deposits as distinguished from current and fixed deposits under the existing system and the passing of any special legislative measures for the protection of such deposits with a view to encouraging the investment of savings?

Answer 11.—My Committee see endless difficulties in differentiating between the various classes of deposits and are against any legislation affecting them.

Question 12.—Have you any suggestions to make in regard to the proposal that is sometimes made that banks which are really stable should be legally protected against unjust attacks on their stability?

If so, please give your views as to who is to determine the cases in which such protection should be extended and in what circumstances, and also the nature of the protection to be granted.

Answer 12.—No. A bank usually gets what it deserves and if in some cases the criticism proves to be wrong, a bank whose position is strong is not likely to suffer much inconvenience from such invidious criticisms. The

best insurance against damaging criticism lies in a sound position, and the position of a bank should be sound enough to withstand the sort of criticism that Bombay is accustomed to, from ignorant or malicious parties. My Committee deprecate any interference by legislation in such matters, other than those provided by the existing law. The publication of a half-yearly statement of the affairs of a bank, accompanied by a more detailed auditor's certificate with special reference to the valuation of investments and the position regarding bad or doubtful debts, would do much to reassure the intelligent public as to a bank's position.

Question 13.—What are the various taxes paid by banking companies? Do any of these taxes interfere with the development or amalgamation of banks?

Have you any suggestions for modifying, removing or readjusting these taxes?

Do you recommend any special concessions, etc., in respect of particular classes of banks, e.g., *co-operative banks? State your reasons.*

Answer 13.—My Committee are not aware of anything that really hinders amalgamation of concerns whose real interests would be thereby protected.

IV.—Banking Education.

Question 1.—What are the existing facilities for banking education in schools, colleges and universities in India?

Is there any co-ordination of effort between such institutions and the banks?

Answer 1.—Banking is made one of the special subjects for the degree of 'B. Com.' in the Sydenham College of Commerce, Bombay. The Economic Department of Indian Universities might follow the example of English and American Universities and devote their energies to the collection and promotion of knowledge in regard to this all-important subject.

My Committee do not know of any co-ordination between Universities and banks, but the Imperial Bank in its published memorandum regarding scheme for training Indians for service in the bank, states: "Preference will be given to candidates who have obtained the degree of Bachelor of Commerce from the College of Commerce, Bombay, to graduates of a recognized University of the United Kingdom or India, to persons who have passed the examination of the Institute of Bankers in England, Scotland, Ireland or India and to those who have had previous banking experience."

The Indian Institute of Bankers should form a means of liaison between banks and educational institutions.

Question 2.—Do banks provide any facilities for the training of boys in banking business?

What is the present method of recruitment of staff by the Imperial Bank of India, the Indian joint stock banks, the exchange banks and the co-operative banks?

Answer 2.—The Imperial Bank of India formulated the scheme referred to in the foregoing answer.

Staff officers of the Imperial Bank are recruited at present largely from England but under the above scheme an increasing number will be recruited from the Indian staff.

The staff of the exchange banks is drawn from their home offices where candidates are trained for some years.

The clerical staff of the Imperial Bank of India is recruited locally, largely from boys who have just left school.

Candidates for posts under the scheme referred to in the first paragraph are selected after examination by a Selection Committee appointed by the Board. They must not be more than 25 years of age.

Question 3.—How far is instruction in banking, theoretical and practical combined at present?

Answer 3.—The Indian Institute of Bankers provides for those engaged in banking facilities for studying the theory of banking and has set examinations for this purpose at regular intervals.

Question 4.—Can you give any information regarding the facilities afforded in other countries in the matter of banking education? Have you any suggestions to make regarding the facilities that should be made available in India?

Have you any suggestions to make in regard to the grant of facilities for higher training outside India to bank probationers and bank assistants in India?

Answer 4.—(*a*) My Committee have no information.

(*b*) Nil.

Question 5.—Have you any suggestions regarding the constitution of the Indian Institute of Bankers?

Answer 5.—No suggestions.

Question 6.—What is the present position and what in your opinion should be the future position of the Indian Institute of Bankers in regard to Banking education?

Answer 6.—Its development and functions should run on the same lines as the English Institute of Bankers with which it might be affiliated.

Question 7.—What is the training of indigenous bankers at present?

Have you any proposals of a practical nature for the provision of special training for this class?

Answer 7.—(*a*) The training of indigenous bankers is confined to practical experience in the business.

(*b*) In primary schools, instruction should be given in elementary accounting, in arithmetical exercise, in interest, commission, discounts, etc. This may be followed by the middle and higher schools giving instruction in banking subjects, co-operative principles, etc.

In the Universities a special Chair might be instituted for this highly important subject.

Lectures by bankers on banking subjects should be provided, and lawyers might lecture on the laws governing banking and kindred subjects. My Committee have in mind the "Gilbart" lectures. The Institute of Bankers in each centre should provide lectures for its members and arrange for them to be given in the Universities.

Question 8.—What are the prospects, present and future, of boys trained in Banking in India?

Do you attribute the slow development of Banking and specially branch Banking to the absence of trained men in India?

Answer 8.—(*a*) With the large field available and the paucity of banking concerns, it should follow that the growing demand for banks should furnish

good prospects for individuals trained in banking. The difficulty, of providing men of the requisite experience and cautious outlook, will of course be felt for a long time.

(b) The point that must not be lost sight of when speaking of banking development is that it is not so much a question of introducing banking, in the general sense of the word, in a country that is devoid of banking organization of its own, but rather the substitution of the Westernised system of joint stock banking for the existing net work of indigenous shroffs, sowcars and small money-lenders, who at present provide the main banking machinery throughout the large agricultural areas of India. It is the substitution of one form of banking for another, and the process must be gradual. The immediate prospects are that the gradual substitution of Indian-trained banking staff for the European-trained staff and thereafter the rate of progress must necessarily be somewhat slow. As in the legal profession the supply will probably ultimately exceed the demand, but for some years to come the supply will be insufficient.

V.—General Banking Organization and Money Market.

Question 1.—Do you find in the present organization of Banks and the Money Market in different parts of India any defects which are likely to be remedied by—

(a) *administrative measures of Government,*

(b) *legislation, and*

(c) *co-operation amongst bankers themselves ?*

Answer 1.—(a) My Committee are only conversant with Bombay conditions and while not prepared to admit that there are defects in organization which can be remedied by any or all of the measures proposed, anomalous situations arise, which would tend to show that greater co-operation between the financial centres and rural areas is necessary. It is not unusual to have the Imperial Bank Rate standing at, say 6 per cent. with money at call unlendable at 2 per cent.

Question 2.—Have you any suggestions to make regarding greater co-operation between indigenous Banks and other Banks in India ?

Answer 2.—The Imperial Bank and the joint stock banks maintain a list of approved indigenous bankers whose hundis they are prepared to discount or to whom they grant cash credits but these facilities are usually only availed of in the busy season. With the spread of banking, there is no doubt that banks will gradually get in direct touch with the smaller trader and this may have the effect of reducing the rate of interest payable by the latter, as the competition between the banks become keener.

Question 3.—Have you any suggestions to make with regard to the organization and functions of Clearing Houses in India ?

Answer 3.—No answer.

Question 4.—Have you any suggestions to make with regard to the regulation of the Bank rate ?

Answer 4.—Regulation of the Bank Rate should be carried out by the Committee of the Central Board of the Imperial Bank or the Reserve Bank if one is created. The rate should be entirely dictated by the exigencies

of the money situation in India with due reference, of course, to international conditions and it should not in any way be subject to control by the Government of India.

Question 5.—Can you describe from personal observation any financial panic which arose in any centre in India?

Explain its causes and state if you have any suggestions to make with a view to preventing any unjustified panic.

Answer 5.—(*a*) No.

(*b*) No measure can prevent an unjustified panic. In the case of a crisis or run on a bank, a prompt *communique* exposing any detrimental rumour which was current or announcing that the Board were in conference with the Imperial Bank or the Reserve Bank, if and when constituted, and that the necessary assistance would be forthcoming, would help to allay anxiety amongst depositors (shareholders and the general public). Such an announcement, of course, presupposes that the situation is capable of being remedied.

Question 6.—Can you indicate the nature of frauds and malpractices which have been experienced by Banks in India and which have from time to time led to stricter regulation and restriction of credit by these Banks thus making bona fide *constituents suffer?*

To what extent have such frauds and malpractices to be attributed to the inadequacy of existing legal provisions and defective nature of business practices? Can you suggest any change which will afford protection to the banks against such malpractices without entailing any hardship on bona fide *customers?*

Answer 6.—No answer.

Question 7.—Have you any suggestions to make with regard to Banking organization in India by which—

(a) *the cost of management may be reduced,*

(b) *the rates of interest on advances can be brought down,*

(c) *greater stability of Banks can be assured, and*

(d) *the cash resources of the various Banks can be mobilized to meet any emergency or unexpected situation that may arise?*

Answer 7.—(*a*) The cost of management of banks must remain fairly high until such time as the possibility of dispensing with the present large proportion of European trained and experienced officers is arrived at, by the evolution of trained Indians of sufficient experience to warrant the confidence of the public.

(*b*) The more inter-bank competition there is and the better security offered, the lower rate of interest on advances will be, with the resultant benefit to the public.

(*c*) Greater stability of banks can be assured by the institution of a system on the lines of the U. S. A. Federal Reserve System and by legislation—

(*i*) ensuring a rigid audit at frequent intervals;

(*ii*) fixing a minimum ratio of paid-up and subscribed to authorized capital;

(*iii*) prohibiting the payment of dividend until the reserve fund has reached a certain level;

(*iv*) restricting business to *bona fide* banking business;

(*v*) providing safeguards against the tendency to speculate or to undertake business which from its nature might result in a long lock-up of funds ;

(*vi*) prescribing restrictions on, and publicity for, all transactions in which directors are interested directly or indirectly.

In connection with (*ii*) the Chamber in 1921 supported a recommendation by the Associated Exchange Banks that the authorized capital of a bank should not be more than twice the subscribed capital and that not less than one-third of the latter should be paid up within one year after the commencement of business.

(*d*) Here again an institution on the lines of the Federal Reserve System seems the best way.

Question 8.—Considering that the dividends of established Banks are fairly high, what in your opinion prevents more capital being invested in the expansion of existing banks or the establishment of new Banks ?

Answer 8.—The vicissitudes, which have characterised the business of banking in India, have doubtless made the investing public reluctant to place their money in further banking ventures, and the growth of banks, of the necessary experience and vision to command confidence, can only be gradual. A banking investment should be looked upon as much from the point of view of security as from that of dividend.

Question 9.—Do you support the suggestion that Banks in India do not find a sufficiently large number of bills against which they could make advances and that this particular instrument of credit of which the Banking systems in other countries make large use is not available in sufficient quantities in India ? If so, what are the causes of this and what remedies do you suggest ?

Answer 9.—Yes, there is undoubtedly a dearth of bills in India and the absence of a regular discount market may have something to do with this, also the system of cash credits. If in future agricultural produce can be financed by bills drawn against commodities either whilst in the field or in transit, a bill market might come into being. The smaller industries might be financed in the same way.

Question 10.—Have you any suggestions to make regarding the organization of the Indian Money Market with reference to settlements on stock and produce exchanges ?

Answer 10.—No answer.

Question 11.—Can you describe the relationship that now exists in India between the Banks and the various classes of brokers, such as finance brokers, hundi brokers and exchange brokers ?

Answer 11.—No answer.

Question 12.—Have you any information regarding the general agency business done by Banks in India for their constituents ?

Answer 12.—General agency, such as buying, selling, stocks and shares, Government and other loans, is undertaken by banks. There are also safe custody departments, purdah offices and trustee departments. The last named is an innovation. A small charge is usually made for such transactions.

Question 13.—How far have banks in India found the maintenance of their own godowns successful in meeting the trade requirements of their constituents ?

Answer 13.—The maintenance of godowns often resolves itself into the provision of a marked padlock on the proprietor's private godown. In former times, cotton trade of Bombay was largely catered for by the banks' godowns but the provision of port trust warehouses has made that form of warehouses no longer necessary.

Question 14.—Have you any suggestions to make for augmenting the resources of Banks so as to enable them to afford further facilities to commerce, industry and agriculture ?

Would you recommend any one or more of the following methods for securing the increase in capital or would you suggest any other method :—

(a) *by way of foreign capital,* i.e., *by direct floatations in other countries or through Foreign Banks ; or*

(b) *by attracting the savings of the community ; or*

(c) *by funds made available by Government,* e.g., *a proportion of the receipts from Cash Certificates and Savings Bank deposits ?*

Answer 14.—My Committee see no objection to the importation of foreign capital, which after all paves the way for the rise of indigenous banking.

Question 15.—To what extent has the Imperial Bank of India been serviceable in the past—

(a) *to the main industries of India, such as Cotton, Coal, Jute, Metals, Sugar, Electrical undertakings (including Hydro-electric projects) ;*

(b) *to the movement of crops ;*

(c) *to the Exchange Banks ;*

(d) *to ordinary Banks—Indigenous and Joint Stock ;*

(e) *to the Indian States ; and*

(f) *to the Indian Provincial Governments ?*

Answer 15.—The three Presidency banks some years ago, and now the Imperial Bank of India, have undoubtedly rendered very great services to the trade and commerce of India.

The Imperial Bank of India has financed and still finances raw cotton (baled) to a very large extent ; it also finances the cotton spinning and weaving industry.

My Committee do not think there has ever been any serious difficulty in the financing of raw cotton (baled) ; there has, however, been difficulty in the financing of cotton mill industry, chiefly owing to the formation of mill companies with insufficient capital.

It is not primarily the function of a bank to provide capital for land, buildings and machinery ; during periods of good trade cotton mills have been established without sufficient capital. Subsequently when bad times came along, difficulties arose in financing such undertakings, but in this connection my Committee do not think the Imperial Bank or any other bank can be blamed.

It is understood that jute is financed to a very great extent in Bengal by the Imperial Bank of India, but my Committee have no experience of this.

The Indian iron and steel industry (*e.g.*, Tata's) has been financed to a considerable extent by the Imperial Bank. Imported metals are financed by the exchange banks. The same applies to imported sugar. My Committee have no knowledge as to how far the Imperial Bank finances Indian-grown sugar in the United Provinces or elsewhere.

Electrical and hydro-electrical projects are not, my Committee believe, ordinarily financed by the Imperial Bank of India or by other banks, the cause probably being that the assets of these companies consist entirely of land, buildings, earth-works and fixed machinery. Undertakings of this nature would generally be financed by means of debenture loans which are outside the scope of the Imperial Bank and which are not sufficiently liquid for other Banks.

(*b*) *Movement of Crops.*—The Imperial Bank of India supply finance at their branches throughout the country for the movement of crops to a very large extent and always have done so.

(*c*) *The Exchange Banks.*—By acting as a Banker's Bank, by maintaining their accounts and granting them accommodation loans against authorized securities when required.

(*d*) *Ordinary Banks.*—The Imperial Bank of India undoubtedly renders a most valuable service to the ordinary banks in India by granting loans against the security of Government paper at Bank Rate. The artificial nature of the Bank Rate, on occasions, detracts considerably from this facility.

(*e*) *Indian States.*—By the opening of branches in certain Indian States and the extension of banking facilities there, by acting as bankers for the States for the investment of their surplus funds, etc., etc. The extension of Banking facilities in certain States is retarded by the operation of their laws, particularly where the States have a paramount lien over all their subjects' properties for debts due to the State.

(*f*) *Indian Provincial Governments.*—Generally by acting as their bankers and conducting their Treasury business and in some cases by floating loans issued by provincial Governments.

Question 16.—To what extent has the Imperial Bank of India been useful in regard to the liquidation of other Banks?

Answer 16.—The Imperial Bank rendered most useful assistance in the liquidation of the Alliance Bank of Simla, Ltd.

The Imperial Bank is, my Committee understand, specifically empowered to render assistance to other banks in difficulties. The Imperial Bank shareholders cannot reasonably be expected to render financial assistance in the absence of adequate security or, in the alternative, an adequate guarantee from Government.

Question 17.—Have you any views regarding the present position of the Imperial Bank of India and the position it should occupy in the future?

Answer 17.—This question was fully dealt with in the report of the Royal Commission on Indian Currency and Finance issued in 1926. In submitting its views on that Report the Chamber approved of the establishment of a Central Reserve Bank. It may not be out of place to quote from the Committee's letter No. 3302/302 of 1st December 1926 :—

"My Committee discussed at some length the merits of the alternative scheme for a Central Bank, *viz.*, the formation of a separate Reserve Bank or the delegation of additional powers to the Imperial Bank together with a modification of its charter. My Committee were at first inclined to favour the second alternative, *i.e.*, modification of the charter of the Imperial Bank since it would obviate the necessity for the formation of a second institution. However, in view of the Imperial Bank's widespread commercial banking activities throughout India, it is difficult to see how it would be possible to amend its charter satisfactorily so as to enable it to function as a Central Bank, and my

Committee are, therefore, driven to the conclusion that the formation of a Reserve Bank is necessary if the management of the Currency Department is to be removed from the control of Government. My Committee are strongly of the opinion that the charter of the Reserve Bank should provide for all its advances being so liquid in character that any rise in bank rate would tend towards the repayment of such advances."

18.—The Imperial Bank of India are sole bankers in India to the Government of India in terms of their agreement with Government under which they retain Government balances free of interest and have the facility of free transfers to and from Government currency chests at offices where these are established. They receive a fixed remuneration for administering the public debt of the Government of India and of certain provincial Governments.

In return for the above facilities and concessions the Imperial Bank transact all Treasury business, *i.e.*, they handle all Government receipts and payments at their local head offices and branches and maintain currency chests at such offices as Government elect and provide offices and staff sufficient to deal with this work free of cost to Government. The Imperial Bank issue Government loans, sell treasury bills and buy sterling on Government account, etc., etc.

In this connection it should be remembered that Government have imposed restrictions on the business which can be transacted by the Imperial Bank in view of its connection with Government, and also that as the Bankers' Bank it has to maintain very much larger cash balances, earning no interest, than other banks in this country.

It is not known what facilities and concessions, if any, the Imperial Bank has from municipal and other corporations and Indian States. My Committee understand that these are a matter of arrangement, in the making of which the corporations and States have an entirely free hand.

The question whether the existing arrangements between the Imperial Bank and Government should be continued is dependent on whether the proposal to establish a Reserve Bank is made effective. If a Reserve Bank is established, the relations between Government and the Imperial Bank of India will be entirely altered, and thisquestion will not arise. If on the other hand a Reserve Bank is not established, it is a matter for Government to consider whether the existing arrangement is the best one it can make for the conduct of its business and the safeguarding of its balances. It is understood that the existing arrangement is a favourable one for Government and has worked well.

This Chamber has already expressed its opinion in favour of the establishment of a Reserve Bank in India.

As the facilities and concessions referred to are part and parcel of the monopoly granted to the Imperial Bank as sole bankers to Government, it is obviously not possible for exactly similar facilities and concessions to be distributed to a number of joint stock banks. If the monopoly is to be withdrawn, new arrangements will have to be concluded, the terms of which would require very careful consideration. By the Imperial Bank of India Act, the Government of India have imposed conditions on the Imperial Bank with regard to the business which it may transact and the number of new branches it requires to open. The joint stock banks are not bound by similar conditions

and if, as would appear logical, in the event of the Government distributing their business among several banks, conditions on similar lines were imposed, this would, in my Committee's opinion, greatly interfere with the business of the joint stock banks as now conducted and would result in the withdrawal of banking facilities now enjoyed by the general public, to an extent which both the joint stock banks and the public would consider undesirable.

No. 50.

Statement of evidence submitted by the Secretary, Indian Chamber of Commerce, Calcutta.

PREFATORY NOTE.

Credit and finance are the life-blood of trade, commerce and industry. The Indian commercial community, so far as the supply of credit is concerned, has been living on a very meagre diet. It was, therefore, with feelings of real pleasure that they welcomed the appointment of the present Banking Enquiry Committee as a sign of the awakening of Government to its sense of duty. Whether their hopes will be fulfilled or not will depend upon the nature of the recommendations made by the Central Banking Enquiry Committee and the extent to which the Government of India will give effect to them.

In our opinion no industrial or commercial progress is possible by any country without a proper banking system suited to its requirements. The Government of India have so far in this respect failed to adopt a proper policy. They have followed a policy of *laissez faire* with the result that even with a command over raw materials and an immense internal market, India is industrially a backward country. Even for articles, the manufacture of which does not require high technical skill, we have to depend upon foreign countries. Whilst the policy of free trade pursued by the Government of India is to a great extent responsible for the stunted industrial growth of India, we feel that the banking policy of Government, rather the absence of one is also no less responsible for it.

As regards the external trade of the country, practically the whole of it is in the hands of European firms. The financing of this huge trade is done entiraly by foreign banks. There is not a single Indian bank engaged in this business. Even the Imperial Bank has been, as a concession to the powerful foreign banks, precluded from engaging in exchange business. As a result of this monopoly Indian firms find it very difficult to compete with European firms who get all the assistance that they require from such banks. What this means to the country will be seen from the following figures:—

The value of the goods exported and imported by this country annually is about 570 crores of rupees. The share of Indians in this immense trade is less than 15 per cent. Assuming that the merchants engaged in this business make on an average 2 per cent. commission, the profits of European firms amount to about 10 crores of rupees annually. Besides, the European merchants are able to extend patronage to the extent of several crores of rupees every year by way of brokerage on goods bought and sold, brokerage on exchange, brokerage on insurance, brokerage on freight secured and other incidental operations. Indians had to be content with moving the crops from the fields to the ports and sending the imported goods from the ports to the mofussil. Indian merchants are being driven out even from this business. The European export and import houses, with their vast resources, are competing very seriously with Indian firms for this kind of business. Indian firms in spite of their economic management find it impossible to withstand them for any length of time as their resources are limited.

Before the advent of the British rule, India had an indigenous banking system of its own. The indigenous bankers who were known as shroffs, sowcars or chetties financed the entire trade of the country. But whilst conditions of production and distribution have in modern times changed considerably, the indigenous bankers have not been able to adapt themselves to changed conditions. The result is that they are hopelessly out of joint. Though the internal trade is still to a great extent financed by the indigenous bankers, they are incapable of supplying the finance required for large production or export and import business.

With the introduction of modern machinery, the production of goods which used to be done by artisans in their own houses has been concentrated in big industrial centres, but the capital which used to finance small industries has not been able to combine. The chief reasons for this lack of combination on the part of Indian bankers are *inter alia* (*a*) Hindu Law of inheritance whereby the sons divide equally the fortune left by a father and succeed to a business by right of inheritance. It is due to this reason that there are no private banking houses which can pride themselves on an uninterrupted existence of a century or more or which can be favourably compared to some of the private banking companies of England, (*b*) want of educational facilities whereby the indigenous bankers of India have not been able to realise the benefits of joint stock trading, (*c*) want of a sound banking policy by Government, and (*d*) the dominance of the foreigners in administration, commerce and industry, which has checked every initiative of the nationals through the apathy of Government and the hostility of the foreigners.

The big joint stock banks in England are only the outcome of the amalgamation of small banking houses that existed before the establishment of the present banks. Whilst in England with the growth of industry, there has been considerable growth of banking, India has moved in the opposite direction. The position to-day is that the indigenous bankers in India are like Lilliputians who in spite of their numbers are helpless in tackling financial problems of this country.

Besides, the resources of the indigenous bankers have been dwindling of late owing to various reasons. When the sowcars or the shroffs held the field of finance, borrowing by Government of the country or investment of money in stocks and shares by the people was inconsiderable. The result was that any one who had any surplus money, deposited it with his shroff or sowcar, who in turn with that money helped to finance the trade of the country. Owing to the constant borrowings of Government from the market and in recent years at high rates of interests, the floatation of joint stock concerns and the deposits attracted by the foreign exchange banks, the resources of the shroffs have been considerably curtailed.

We think that the most important problem that requires serious consideration at the hands of the present Banking Committee is to devise means to develop banking institutions in the country to keep pace with its requirements. As a first step towards the development of Indian banking it is necessary that steps should be taken to effectively link the indigenous bankers to the banking organisation of the country. To achieve this purpose we suggest that in small towns where branches of joint stock banks do not exist, (1) indigenous bankers should be encouraged to combine and start joint stock banks of their own and (2) banks

should be encouraged to appoint the local shroff or shroffs to act as their agents. By these means it will be possible for the banks to reach the smaller merchants who during the busy season require financial facilities for moving crops. It would be also helpful if all banks have a local Advisory Committee for every branch whereon local shroffs and merchants are invited to serve. This will mean a close association of the indigenous bankers with modern banking methods and will prove of great utility and educative value. The association of local shroffs with the management of a bank will not only inspire confidence amongst the local people but the shroffs themselves will be able to realise the advantages of joint stock banking. These steps, in our opinion, will be of great help in promoting modern banking habits amongst the indigenous bankers.

Indian banking was in its infancy when it received a severe set back by the financial crisis of 1913. Poverty of the country, paucity of savings, illiteracy and the habit of hoarding whatever little savings can be made, and hostility of vested interests may be some of the reasons why so few banks have been started in India. Want of banking education and expert knowledge on the part of promoters and management in some cases and insufficient direction in some others by the directorate who give only a small and spare time to the direction of institutions under their charge may also be responsible for the stunted growth of joint stock banks. But with the encouragement afforded to the Imperial Bank of India to open so many branches and to compete with branches of joint stock banks on absolutely unequal and unfair terms and with the growing competition of exchange banks the prospects of Indian managed banks are not at all promising as they cannot be expected to compete with them under the present circumstances. The success of Indian banks will mainly depend on the Indian public which should have a frame of mind in which it should consider its duty to support its own banks and deal with them alone, as is the case in most of the civilized countries. If it is intended to develop Indian banking, restrictions should be placed on the borrowing powers of exchange banks and the activities of the Imperial Bank of India in the matter of opening branches should be severely controlled.

Association with a certain vocation for generations develops an inborn tendency for the same vocation and so certain communities which have been doing that business for generations can be properly described as banking communities. There are such banking communities in India, *e.g.*, the Marwaries of Rajputana, the Shikarpuries of Sindh, the Sowcars of U. P., the Punjab, Gujerat and the Chetties of the South. Owing to their association with banking for a number of generations, members of these communities have a natural instinct for banking. We suggest that scholarships should be offered to suitable young men to study modern banking methods; such young men will, in our opinion, prove very efficient bank managers.

Every bank has a certain amount of call liabilities. Sound banking demands that a certain percentage of such liabilities be kept in cash. Prudent bankers do maintain a reasonable percentage of their liabilities in cash and call-money; but as their profits depend upon the amount they can loan out, they cannot keep a very big percentage of their resources idle in the tills of banks. Even with the utmost prudence there are at times unexpected calls on the resources of a bank. If there are no facilities available whereby a banker can at such times convert his assets into liquid cash, he has to go to the wall in spite of the fact that his position

is intrinsically sound. Even the indigenous bankers have a system amongst themselves which is known as the Khate Peta system whereby they loan or borrow from each other money at call. So long as the credit of the indigenous banker is good, he has no difficulty in getting any reasonable amount required from the other bankers. But so far as the joint stock banks in India are concerned, unfortunately owing to the absence of a Central Banking Institution responsible for the currency and credit management of the country, no such facilities are available to them. The Imperial Bank of India being itself a competitor of joint stock banks and not being a Bankers' Bank in the strict sense of the term has failed in its duty to offer facilities at such emergencies in the best possible way. The history of all the big banks of the world will show that in their careers, there have been times when they were faced with unexpected difficulties and had not help of the nature indicated above been forthcoming, some of them with their present mammoth financial resources would not have been in existence. To ensure the growth of healthy banking, it is very essential that a Bankers' Bank be established which could readily come to the help of all *bona fide* banks in times of difficulty.

Credit is very sensitive, and the slightest breath of suspicion is sufficient to set aflame the fire of distrust in the minds of the public, especially in a backward country like India. The establishment of a Bankers' Bank with a more liberal policy than that which has been pursued in the past is the *sine qua non* for the development of Indian banking.

No amount of help or measures can lead to any growth of banking if Government of the country is a constant borrower of money at a high rate of interest. The one big difference between banks and ordinary business concerns is that whilst the earning capacity of the former is limited there is no limit to that of the latter. The rate of interest which Government have been paying during the last two or three years is fatal to the growth of any new concerns in the country. When a man can make quite a decent rate of interest by lending money to Government there is no reason why he should venture into business, be it that of banking or anything else.

To allow Indian joint stock banks to develop to their full extent we think restrictions should be placed on the operations of the foreign banks in India. Owing to their huge financial resources and the control that they exercise over the external trade of the country these banks are able to attract large deposits which would ordinarily go to the Indian joint stock banks. The deposits that these banks attract are not used to finance Indian trade and commerce but, are used mainly to finance the external trade. The attitude of the foreign banks towards Indian businessmen in general is very unsympathetic. The exchange banks did not and do not grant proper facilities to Indian importers.

The right to bank in Australia is an exceedingly close privilege and although there is no Act specifically prohibiting foreign banks from engaging in business there, yet no foreign bank has been successful in obtaining a foothold notwithstanding the fact that serious efforts have been made by powerful foreign co-operations in this direction. It may be interesting in this connection that the bank which calls itself Bank of India, Australia and China has not been able to open a branch in Australia. So far as we know, there are restrictions in Canada too against non-national banks carrying on any business there. In the Reserve Bank Bill introduced

by Sir Basil Blackett, which was subsequently withdrawn by the Government of India, a schedule was attached containing the names of the banks entitled to the membership of the Reserve Bank System. In that list there were the names of only five Indian banks whilst the remaining were those of foreign banks. As against this we may cite the case of Australia where foreign banks are not allowed even to open accounts with Australian banks.

If the Banking Enquiry Committee recommends the establishment of a Reserve Bank, we suggest that a similar restriction on foreign banks should be imposed, and no foreign banks should be allowed to carry on ordinary banking business in this country unless they are registered in India with a rupee capital and have a majority of Indians on their directorate.

The uncertainty regarding the standard of value is in our opinion fatal to the growth of banking habit. In spite of the unanimous demand of the country, the Government of India have failed to give the country a full value coin. Since the stoppage of the free minting of silver in the year 1893 the rupee has been a token coin. The value that this token coin is supposed to represent has been changed more than once. We, therefore. strongly recommend the establishment of a real gold standard and gold currency in the country. As the question has been very fully discussed many times, we content ourselves by reiterating the demand which has been persistently made by this country and which has been equally persistently refused by Government.

The Committee should also very carefully go into the question of the establishment of a Central Reserve Bank. The scheme of the Central Reserve Bank as embodied in the bill introduced by Sir Basil Blackett was not acceptable to the country for various reasons. First of all, the Act did not provide for a gold standard as demanded by the country. What was sought to be given instead was the continuation in a different form of the present gold exchange standard. Secondly, there was a bitter difference of opinion between Government and the popular representatives in the Assembly over the question of the directorate. Owing to the present political position of India wherein Government is not responsible to the public, none of the constitutions of the central banks of other countries can be suitable to this country. There is no gainsaying the fact that owing to the policy of the Government of India in subordinating the interests of Indians to those of British merchants which in many cases are diametrically opposed, Indian businessmen can have no confidence in Government as it is constituted to-day. They cannot therefore, accept any institution so vitally affecting their interests, the management of which is sought to be left entirely or largely in the hands of Government. They require proper safeguards against their interests being ignored or sacrificed. This is why there was such a sharp difference of opinion over the question of the management of the proposed bank. In fact it can be said that the ship of the Reserve Bank foundered on the rock of the composition of its directorate.

We cannot understand why the Government of India should be so dead opposed to the principle of the Legislative Assembly electing some directors. No doubt in other countries Government control such institutions, but Government in those countries is nothing else but an executive body of the majority party in the legislature. In India the elected

members of the Assembly are the majority party and we do not see any reason why they should not be conceded that right. The Secretary of State for India recently remarked that in India Dominion Status was already in action. This statement can be to a certain extent justified in the field of finance, if Government concede to the Assembly even a partial control of the institution responsible for managing the credit and currency of the country.

Besides, it should be remembered that the Reserve Bank is meant to serve as the apex of the banking system of the country. If there is an unsympathetic directorate in charge of the apex institution, one cannot hope for any appreciable help by it in promoting banking in India which is so necessary for the economic development of the country. It is the Indian merchants who to-day stand in need of sympathetic treatment regarding supplies of credit and finance, not the European merchants. It, therefore, makes it all the more necessary that the directorate should be composed of only such Indians as enjoy the trust of the Indian commercial community and the general public. Indian businessmen would rather do without a Reserve Bank than have one with a Government majority. We do not think it is at all difficult to evolve a constitution for the Reserve Bank acceptable to the country, if the Government of India are at all serious in transferring the control of currency and credit from their hands to an independent institution.

Besides the question of the composition of the directorate, another important matter in connection with the Reserve Bank that requires to be carefully considered is the manner in which the different kinds of credit institutions in the country are to be linked up to the Reserve Bank System to enable them to utilise the facilities offered by the Reserve Bank.

The different kinds of credit institutions necessary for financing all productive activities in the country are:—

(a) Land mortgage and co-operative banks for financing agriculture,
(b) Industrial banks for financing industries, and
(c) Commercial banks for financing trade and commerce.

The question that has to be considered in this connection is whether the different kinds of banking institutions mentioned above should have a head office for the whole of India which can deal direct with the Reserve Bank or they should be organised on a Provincial basis with access to branches of the Reserve Bank. In our opinion the edifice of banking institutions in this country should be somewhat on the following lines:—

Reserve Bank.

- Branches of Reserve Bank.
  - Provincial land mortgage banks.
    - District Land Mortgage Banks.
  - Provincial Co-operative Societies.
    - District Co-operative Banks.
      - Village Credit
  - Commercial Banks.
    - Shroffs or indigenous banks.
  - Land Mortgage Banks for Urban areas.
- Industrial Bank.
  - Branches of industrial banks in industrial centres.

It will be seen that whilst we are in favour of Provincial organisation for all other kinds of banks dealing directly with the branches of the Reserve Bank, we are making an exception in the case of industrial banks. As the financing of industries requires the application of expert technical skill, we think it desirable to restrict the right of dealing with the Reserve Bank to the head office of the industrial banks alone.

The Reserve Bank like the Bank of England should not be prevented from engaging in open market operations such as discounting of bills, sales and purchases of securities, etc. Experience has shown that owing to the restrictions imposed on the Federal Reserve Bank, it was not able to effectively control credit when it was necessary to do so.

We suggest that in deciding the composition of the assets of the Note Issue Department of the Reserve Bank, provision should be made to enable notes being issued by the Reserve Bank to the extent of 25 per cent. of the total note issue on the security of first-class commercial paper.

After all that has been said about the development of banking one cannot shut his eyes to the fact that the conditions necessary for the growth of banking do not exist in the case of India. Banking can develop only out of the savings of the community. Thanks to the ever-increasing burden of taxation, absence of industrial development owing to the callous attitude of Government, poor return to the cultivator for his agricultural produce, people in this country can hardly make both ends meet. In February last, Sir Frederick Sykes, the Governor of Bombay remarked, while addressing the Bombay millowners, that 500 crores are being lost to India annually through failure to take full advantage of the productive possibilities of the soil. Unless, therefore, Government of the country directs its energies towards improving the productivity both in the sphere of agriculture and industries thereby enabling the people to save something, there cannot be much improvement in the development of banking in India.

APPENDICES.

I.—Industrial Banks and Credit facilities for India's main Industries.

My Committee do not propose to reply to the questions *ad seriatim* but they have confined their attention to a few important questions in the questionnaire.

Answer to Question 1.—The only credit facility available to industrial concerns at present in this country is floating capital for current requirements. With the exception of a few banks, this form of facility is granted only by the Imperial Bank of India to a considerable extent. It is known as the cash credit system. The advance made by the bank is secured by stocks of raw and manufactured goods. In this connection we would like to draw the attention of the Committee to the fact that the Imperial Bank in the case of such advances makes distinction between the cotton and jute industries. Whilst in the case of jute mills, the Imperial Bank does not require a mortgage of the block against loans, in the case of cotton mills such a mortgage is necessary. The Imperial Bank generally grants up to 75 per cent. of the value of the stocks. Cash credit is available only to big industries like jute and cotton. Even for current requirements the present facilities are not in our opinion sufficient. The Imperial Bank makes advances only when an industry is well established. No facilities are available in the initial stages. Besides, the facilities in the form of cash credits are liable to be withdrawn by the banks at any moment. Certain industries require finance for selling goods on credit but they do not get the same. They should be enabled to raise money on the security of bills on their customers.

As regards fixed capital expenditure or block, none of the banks in India at present grant any facilities to the industries. Many concerns or private firms are able to raise a sufficient portion of the capital required for starting a new industry, but they sometimes find that they cannot complete the scheme owing to insufficient finance. In the case of established concerns also such credit facilities are required for replacing old machinery by new or installing improved types of machinery or for making additions to the existing plant. The form in which some industrial concerns avail themselves of such help is by issuing mortgage debentures. Industrial concerns managed by Indian firms find it very difficult to place debenture loans on the market. This, in our opinion, is not due to any lack of capital. An investment in the form of a debenture loan is quite safe, but owing to the fact that there is no organisation which could guide the investors in this matter, they are generally shy. If an industrial bank on the lines suggested by us hereafter can be set up, it could underwrite such debenture loans. The industrial bank would not have any difficulty in selling such issues to the public as owing to the association of a first-class industrial bank with the loan, the investing public will have full confidence in the security.

Answer to Question 2.—In the case of jute, which is the most important trade in this Presidency, the various classes of documents in use are :—

(*a*) Bills of lading or railway receipt of inland transport companies.

(*b*) Pucca delivery orders in the form of an order on the godown-keeper of the mill or the press-house concerned to deliver the goods specified to the registered holder (such orders are issued only against payment).

(*c*) Mates receipts and bills of lading issued by steamship companies.

The various stages of the jute trade from the movement of the crop from the mofussil to the sale of goods to the foreign consumers are:—

(*a*) Import.

(*b*) Manufacture,

(*c*) Bailing, and

(*d*) Export.

With the exception of some European merchants who are able to get financial facilities from banks on the security of stocks in up-country godowns, the import trade is financed by the traders themselves. Manufacturers carry stocks of raw jute sufficient for several months' consumption. Some of the mills have their own funds whilst others are able to get cash credit from the banks on the security of such stocks. Jute mills rarely carry unsold stocks of manufactured goods. The sold stocks are paid for by the buyers. Balers are to a small extent financed by the banks. For the export trade no finance is required.

For many other commodities besides jute, such as piecegoods, seeds, grains, etc.. the commission agents have to find the necessary finance. The up-country merchants draw from 70 per cent. to 100 per cent. of the value of the produce on the commission agents. In the case of exports to the mofussil considerable credit is allowed by the commission agents to the mofussil merchants.

For the internal movement of the crops and imported articles, the financial facilities available are very insufficient. Banks in India are not prepared to trust the merchants to the same extent as they do in other countries. For example, a Challaniwalla who exports piecegoods to the mofussil, cannot get any financial help from banks on the security of his outstandings from mofussil merchants. In other countries, importers are able to get delivery of goods from their banks and pay for them months after it. What is required is a more liberal policy. The exchange banks are concerned only with the export and import trade whilst the resources of the indigenous banks are insufficient for this purpose. The situation can only be remedied by the development of banking on proper lines.

Answer to Question 3.—Banks in Calcutta generally make loans against securities of stocks and shares of jute mills, hessian, gunny and jute delivery orders and bullion. To a small extent, loans are made also on the security of piecegoods, jute and other raw materials. Some banks also discount hundis. The rate of interest charged varies from bank rate to 2 per cent. above bank rate, according to the nature of the security offered. The rate of interest charged by financial houses and commission agents varies from 4 to 9 per cent. according to the standing and means of the borrowing party. Many small industries have got to pay interest as high as 24 per cent., even when they borrow on the security of their assets *e.g.*, coal, leather industry, oil mills, rice-mills, tea gardens.

From enquiries made amongst the members of the Chamber, we find that whilst some sort of credit facilities are available to big merchants, the smaller merchants find it extremely difficult to get any credit at all. The position is especially bad in the up-country centres. Many merchants have ample security to offer but still cannot obtain any loan. Owing to lack of financial facilities their business is hampered.

Answer to Question 4.—The foreign exchange banks concern themselves with foreign trade and do not consider it to be within their purview to help industries—though they do it to a small extent to finance industries under European control. The reason why the Indian joint stock banks have not freely financed industries is due to their reluctance to lock up their resources. Owing to the fact that in the case of a crisis there is no Central Authority or a Bankers' Bank on which they could count for support, the banks generally prefer to keep their resources in a liquid form. Besides, the staff of the banks do not possess adequate industrial and commercial knowledge, and, therefore, they cannot judge whether a concern is intrinsically sound or not. We, therefore, think that financing of industries to any great extent is not possible by the present banks. In the case of these banks, there are frequently influences at work trying to discredit them in the eyes of the public; they have always to be prepared for eventualities and hence under the present circumstances it will not be advisable for them to engage in financing industrial concerns. Another reason why banks in India are shy of making large advances to industrial concerns is the insecurity about the prospects of the industry. In other countries, whenever a particular industry experiences depression due to any cause whatsoever, the industry can always count upon the support of Government of the country, but in the case of India, owing to the unsympathetic attitude of Government, industries are left to the tender mercies of powerful foreign competitors. The case of the cotton mill industry is an instance in point. We, therefore, suggest that in order to provide adequate financial facilities to industries, an industrial bank should be started as soon as possible. Such a bank should, in order to inspire confidence, be started under Government auspices. Government should guarantee a minimum dividend to the shareholders. The Government of India did guarantee such dividends in the case of many railway concerns and in some cases had actually to pay such dividends. We do not see any reason why Government should not take a similar step in the case of the industrial bank. Such a bank, if established, should have on its directorate prominent Indian businessmen drawn from all classes.

We suggest that such a bank should be started with a capital of ten crores of rupees. If Government guarantee a minimum dividend of 5 per cent., we think there will be no difficulty in getting the shares subscribed. The holding of non-Indians in the banks should be restricted to 30 per cent. of the total capital. Besides its own capital, the bank, in our opinion, will be able to attract considerable amount of deposits. The bank should confine itself to taking time deposits only. The Central Currency Authority whether it be the Reserve Bank or the Government of India, should issue fresh currency whenever required, on the security of trade bills to the extent suggested by us elsewhere.

We are not in favour of imposing any statutory restrictions on the business of the bank, but Government should, through its representatives

on the Board, take care to see that money is not advanced without sufficient security, that every scheme is examined thoroughly by experts and that there is no favouritism in the treatment of industries or concerns conducted by particular individuals or firms.

A great deal of potential credit is at present lost to the commercial community as it is not possible for them under the present circumstances to readily obtain any loans against the security of landed property. This in our opinion is to a certain extent due to the intricacies of the Mitakshara Hindu Law whereby banks find it very difficult to take possession of the mortgaged property in case of default. We suggest that the whole position with regard to this law should be thoroughly examined to bring it into line with modern requirements.

II.—Financing of Foreign Trade.

Answer to Question 2.—So far as we are aware, no clean credit is available to Indian merchants. The rates charged for time bills depend upon the discount rate and the Bank of England rate. These rates fluctuate according to the state of the money market in England. In this connection we may like to mention the fact that the penalty charged by the exchange banks for late completion of exchange contracts is very high. The penalty charged at present is 1/32 penny per week. Many times the importers do not know when the steamer is actually to arrive. Cargo steamers do not observe any fixed time-table, and as regards the date of sailings also the matter is not under the control of importers. If any importer buys for April shipment, the seller can ship his goods at any date in the month of April and the steamer may leave even in May. As the exchange banks make contract for one month only, sometimes it is a real hardship to the merchants. The penalty of 1/32 penny per week works out nearly 1/5 per cent. per week. In the case of exports also sometimes the steamers are delayed and hence it is not possible for merchants to deliver their bills within the contracted period.

Answer to Question A.—We are in favour of establishing bonded warehouses at all important ports to enable merchants to warehouse their merchandise. Warehousing facilities at present available are not sufficient for the requirements of the trade. In the existing bonded warehouses in Calcutta, some of the terms on which the goods are warehoused are very unfair to the merchants. For example, the merchants on whose account goods are stored in the bonded warehouse through the agency of banks have no security or guarantee about the number of packages stored or the weight of the goods. The warehouse authorities do not definitely admit that they have received so much goods for warehousing. What they say is only that the goods warehoused are alleged to be so much, and neither the bonded warehouse authorities nor the banks are responsible in case of short or wrong delivery. The charges of the bonded warehouse in Calcutta are very high and the methods employed by them in taking and giving delivery of goods are very dilatory, thereby putting the merchants to considerable inconveniences.

With regard to the practice of port trust warehousing we suggest that merchants should be allowed to warehouse their goods without payment of duty, and the duty should be collected at the time of the delivery of the goods.

We understand that at present certain articles are warehoused without payment of duty and in the case of other articles such as steel, hardware, etc., the duty has to be paid before the goods can be warehoused. As on many articles the duties are fairly high, it means that the merchants have to pay in some cases about 40 per cent. of the value of the goods, before they can store them.

The whole of the export and import trade of this country is practically in the hands of a few European merchants. The branches of foreign banks, in which category we include all banks not registered in India with a rupee capital, finance this trade. The Imperial Bank is prevented from engaging in foreign exchange business by a provision in the Imperial Bank Act, whilst the resources of the Indian joint stock banks are not sufficient to enable them to engage in this business. Even if the resources are sufficient as they are in the case of one or two Indian banks, they find it rather difficult to compete with foreign banks.

Whilst small European firms of inconsiderable means experience no difficulty in carrying on export and import trade to any extent, and can give facilities to the customers, Indian firms of even good standing do not get all the financial facilities required. Where bills are drawn on a London bank against an irrevocable letter of credit, there is not the least difficulty in negotiating such bills. There is a great competition amongst the banks to secure such bills as they are a first-class form of investment. But besides buying such bills, the attitude of the exchange banks towards Indian business houses is not as sympathetic as it ought to be.

The chief facilities required by the export and import merchants are:—

(*a*) Opening of credit where an importer purchases from a foreign party on such terms.

(*b*) Release of goods on acceptance.

(*c*) Discounting of D. P. Export bills drawn on the exporters' foreign branch, agent or buyers.

(*d*) Sale of D. A. Bills on parties other than London banks, or D. P. Bills drawn on parties in countries other than England, and

(*e*) Favourable bank references.

We do not know what the situation in other parts of India is, but so far as the trade of Calcutta is concerned, Indian business houses engaged in the export and import trade do not get the facilities mentioned above.

In the case of opening credits, excessive margins are required to be deposited. Where a merchant buys goods for shipment several months after the transaction, it means locking up of a considerable sum of money. Whilst the charges for opening credits are reasonable in the matter of margin necessary for opening of credits, the policy of the banks in India is very much conservative compared to that of the banks in other countries. Even first-class Indian firms are required to deposit 10 per cent. to 15 per cent. of the value of the goods irrespective of the fact whether the commodity is of a fluctuating nature or not. Our information is that banks in other countries accommodate their merchants of good standing without any deposit. Though we cannot make any definite statement as the banks

and the business houses concerned do not give the necessary information, we think that the European houses in Calcutta are not required to make such deposits.

The few Indian merchants who import from abroad cannot do so on D. A. terms; they can do business only on D. P. terms. This means that the merchants have to make payment before the banks will release the goods. In other countries, banks release goods on the acceptance of their clients who make payment months after taking delivery of goods. This is a great facility to the merchants concerned. For example, an importer of jute goods in South America is able to get delivery of the hessian cloth that he imports from India without making payment. He converts the cloth into bags, sells it to the farmers and out of the sale proceeds pays his bankers. Thus merchants there are able to do business without much capital of their own, this is, however, not possible in India. Leaving aside the question of releasing goods on acceptance, some of the exchange banks will not even make an advance against the security of goods held by them in case Indian importers want time to take delivery of the imported goods. In order to encourage the import of Manchester piecegoods such facilities are now being offered to merchants engaged in that trade, but in the case of other commodities such facilities are not freely available.

In the case of jute, sales are generally made on D. P. terms. Those merchants who work through London agents generally draw D. P. bills on their agents. As a London party is always considered safe whatever its means, the banks here readily discount such bills. The fact that recently in the London jute market there have been a number of failures has not caused the slightest perturbation in the minds of exchange banks. The bigger export houses have either subsidiary companies or branch houses in London. As the Continental buyers prefer not to be drawn on for the value of the goods sold to them, and in many cases want time to make payment, it is necessary to draw on the London branch. In the case of Indian exporters, some banks do not like to buy such D. P. bills even if the London office maintains a very satisfactory account with the London office of the bank.

In the case of export of manufactured goods, some of the buyers in foreign countries whose financial position is undoubted do not like to incur the expenditure of opening credits. They prefer to buy on D. A. terms; some buyers want to make payment after the arrival of goods; some buyers want to make payment by a draft on their London house against delivery of goods. In all such cases the exchange banks while they are prepared to grant facilities to European merchants, generally do not accommodate Indian businessmen. In short, in the case of Indian businessmen it is only possible to do export business if they are able to get a confirmed letter of credit opened in their favour by some first-class London bank. This places them at a disadvantage with their competitors. Most of the buyers of hessian in North and South America do open such credits, but owing to the keen competition that prevails for this kind of business there is not much profit in it, but where it is really possible to make a reasonable commission, the Indian merchants owing to the difficulties described above, cannot compete.

The question of bank references is of the greatest importance to merchants who are or are likely to engage in the external trade. No trader in any part of the world would like to deal with a merchant in

a foreign country for whom he does not get satisfactory bank references. It has been brought to the notice of this Chamber that in case of some Indian firms satisfactory references are not supplied to the overseas merchants by the Calcutta banks. In the case of foreign merchants whose resources are considerably less than some of the Indian firms, about whom satisfactory references are not supplied, the banks of their countries supply very good bank references.

If an Indian firm threatens to seriously compete with the established European business houses in the export and import trade, it has to meet with several other difficulties, one of which is that some of the European competitors start rumours from time to time about the impending failure of the Indian firm concerned. Such rumours are duly cabled to all foreign connections of the Indian firm. The European bank-managers in Calcutta readily believe such rumours even when they have ample proofs to the contrary; they are in a great hurry to withdraw any financial facilities that they may have granted to such firms.

In fact, the European business community in Calcutta of which the bank managers are a part, work in close co-operation and make it practically impossible for Indian firms to seriously compete with them in the export and import trade. In order to enable Indian merchants to compete successfully with European firms engaged in the export and import trade and to remove the handicaps that are placed in their way at present by the foreign banks, we suggest that Indian banks should be encouraged to engage in exchange business. As a first step towards achieving this object we suggest that the present restriction on the Imperial Bank whereby it is not allowed to engage in exchange business, should be removed at once. It is indeed regrettable that whilst the Imperial Bank is made to compete with indigenous joint stock banks by being forced to open branches and in many other ways, it has been restrained by statute from competing with exchange banks. The resources of the Indian joint stock banks at present are not sufficient to enable them to compete successfully with the powerful exchange banks, but due to the financially strong position of the Imperial Bank and its prestige owing to its association with the Government of India, we are sure that if the Imperial Bank enters the field of financing the foreign trade, it will be able to compete successfully with other banks that hold monopoly of this business at present. In our opinion, the Imperial Bank should be asked to stop opening any further branches in the country, thereby leaving the field of extending banking facilities to indigenous joint stock banks, but should be required to open branches at foreign centres, *e.g.*, London, Hamburg and New York.

Once the Imperial Bank is firmly established in this business, it will be easy for other Indian banks also to follow suit. We quite realise the possibility of the Imperial Bank incurring some losses in the initial stages, but in view of the fact that the monopolising of the export and import trade by foreigners means the closing of a profitable line of business to Indian merchants, Government would be well advised in subsidising the bank to the extent of its loss, if any. The opening up of branches by Indian banks in foreign countries will not only enhance the prestige of Indian businessmen in other countries, but will enable them to engage in the export and import trade. In this connection we would like to mention the fact that if the Imperial Bank is really to serve the interests of

Indian businessmen, the personnel of the bank will have to be Indianised as quickly as possible. A majority of Indians in the directorate, and a progressive Indianisation of the superior staff of the bank should be made conditions precedent to the grant of any help whatsoever by the Government of this country.

III.—Regulation of Banking.

1. The Chamber is not opposed to the audit and examination of bank accounts by examiners if that is calculated to inspire more confidence amongst the shareholders and the investing public.

2. We are not in favour of any restrictions being imposed on the business of the banks.

3. Yes. The word 'bank' should not be allowed to be used unless a company calling itself a bank has a paid-up capital and reserve amounting to not less than ten lakhs of rupees. The smaller companies may use the name loan offices, as is done in Bengal.

With reference to private firms doing banking business, we do not suggest any additional provisions for special application to them.

As regards a branch of a firm or a company whose head office is situated outside India, doing banking business in India, we suggest that it should be required to keep a separate account of its Indian business and file a copy of it with the Registrar of companies like other joint stock banks. A portion of the assets of such foreign banks should be earmarked for liabilities in India, and these assets should be disclosed in the statement submitted to the Registrar. It should also file a copy of the assets and liabilities of its head office. These provisions can be enforced by the Registrar of companies.

4. This has already been dealt with by us in our preface to the memorandum.

5. Yes. In our opinion this authority should be vested in the Standing Finance Committee of the Government of India. No bank should be allowed a license unless it has a local Advisory Committee, the majority of which should be Indians. Branches of foreign banks operating in India should be required to file a statement of their Indian business with the Registrar of joint stock companies. The license should also contain a condition that the banks should maintain an investment in Indian trustee securities to the extent of 25 per cent. of their total liabilities in India. No license should be issued to any foreign bank unless it makes an investment of 10 lakhs of rupees at the outset in Indian trustee securities. The foreign banks should be made to comply with conditions mentioned in answer to the following question (question No. 6).

6. We think the present position is satisfactory. Additional provisions that we suggest are:—

(a) No bank should be allowed to publish its authorised capital, and the authorised capital should not be more than double of the subscribed capital.

(b) At least 50 per cent. of the subscribed capital should be paid up before a bank can be allowed to start business.

(c) No bank shall be allowed to declare a dividend of more than 8 per cent. until the reserve is equal to the paid-up capital.

(d) The proportion of cash balance including the deposit with the Central Banking Authority, and investments in trustee securities to time and demand liabilities should not be allowed to fall below 15 per cent. at any time. If the proportion falls below such a level, a deterrent fine should be provided for, and

(e) We think the balance sheets should contain more information than what they contain at present.

8. The principal causes that are often responsible for failure of banks in India are:

(a) Inability to convert assets into liquid cash at times of unexpected demand on the resources;

(b) Unfounded rumours about the position of a bank;

(c) The impunity with which the people can start legal proceedings with a view to discredit the bank and its directors;

(d) The feeling in the mind of the public that banks cannot get assistance from any Central Authority or from foreign banks, in times of need, inspite of the fact that good securities may be available.

We have already suggested the establishment of a Reserve Bank which should come to the aid of banks which may be in a position to offer sound securities but which are faced with difficulties owing to reasons beyond their control.

12. It has become common for unscrupulous people to approach the managers of indigenous banks for loans on insufficient security to hold out threats of harassment on refusal. In the case of one or two institutions, irreparable loss has been done by such people by subjecting the company to relentless persecution. The methods employed are:—

(a) Spreading of false rumours about the solvency of a bank.

(b) Filing frivolous suits in law courts about technical breaches of the Indian Companies Act.

With regard to the spreading of rumours, of course, there is no way to prevent it. Too much of it will, in our opinion, defeat its own object. We, however, think that if banks which are subjected to periodical spread of rumours can count upon a Central Institution to help them at such times, their business would not be very much adversely affected. At present they have to keep considerable cash balances lying idle without earning any interest and thus the earning capacity of the bank is impaired. This means a decline in the share values which again creates distrust in the minds of the public.

With regard to the second method of harassment, *i.e.*, of filing frivolous suits, we suggest that whilst we are not in favour of unduly restricting the right of the shareholders to criticise the affairs of a company, any shareholder who wants to file a suit involving criticisms of management of any limited concern, should prove a *prima facie* case before the Registrar of joint stock companies, and in the case of a credit institution no

such prosecution should be allowed unless it is sanctioned by the Advocate-General of the Province in which the head office of the institution is situated.

IV.—Banking Education.

Answer to Question 1.—Banking education is only imparted in a few colleges in a few Universities in India, *e.g.*, the Bombay University, the Calcutta University, the Dacca University, and the Lucknow University. These facilities, however, are only for theoretical education in banking. The courses for the degree of Bachelor of Commerce comprise banking as one of the optional subjects. The knowledge that is imparted is, however, of an elementary character. There is hardly any co-ordination of effort between these institutions and the banks.

Answer to Question 2.—The banks do provide some facilities for the training of boys in banking business, but the facilities so provided are very limited. In fact, it is only the Imperial Bank of India which takes a limited number of Indian apprentices as probationary assistants. The other banks, if they take any boys for training, do not comply with any definite scheme of recruitment laid down by the authorities. The Imperial Bank takes also a large number of men from among the junior members of the staff of the English and Scottish banks. My Committee are of the opinion that the recruitment of non-Indians, except for some of the higher appointments for which Indians with requisite qualifications may not be available at the present time, should be immediately stopped. The exchange banks appoint Indians for only their clerical appointments while the higher appointments in their banks are made from abroad.

Answer to Question 3.—There is no combination of theoretical and practical banking education at present.

Answer to Question 4.—Banks do not encourage the men in their service to go abroad for acquiring banking education in foreign countries. In the opinion of this Chamber the banks in India, especially the Imperial Bank, should grant scholarships to Indian Assistants for study abroad, as then alone it will be possible to give them the requisite training for putting them in independent charge of banks.

Answer to Question 7.—There is no organisation to provide training in indigenous banking at present except in the banking houses themselves, and the advantage of that training is only available to the members of the family owning these banking houses, as banking is very largely a hereditary vocation. It is essential that some special training should be given to these indigenous banks regarding banking on modern lines. A co-ordination of the training of these indigenous bankers who trade according to old and antiquated ideas with the modern methods of banking will be very helpful in the development of banking on sound and up-to-date lines. Provision of a special course in schools on indigenous banking modified in the light of modern experiences and needs would be useful.

Answer to Question 8.—The prospects for men trained in banking in India are not very good as there are few chances of employment, but these chances are likely to improve with the establishment of more banks and with progressive Indianisation of the personnel of these banks. The dearth of suitable men in India trained in banking is certainly one of the most important causes of the tardy development of banking. It would be a great help in developing banking if suitably trained Indians are made available at the earliest opportunity.

No. 51.

Letter from the Secretary, The Indian Merchants' Chamber, Bombay, No. 257, dated the 6th February 1930.

My Committee consider the work before the Central Banking Enquiry Committee to be of immense national significance and importance. It is for the first time that such an influential and representative Committee has been appointed to go thoroughly and comprehensively into a question which forms one of the pillars of modern commerce and industries. It is because of this that my Committee would particularly urge the Central Banking Enquiry Committee, though it may be a presumption to do so, to concentrate their attention on four fundamental problems connected with banking in this country. They have no doubt that the Central Banking Committee must have in mind all the four questions to which a reference is made here, but they take this opportunity of emphasising the importance of all these four problems as they consider that over and above the importance which attaches to the questionnaire issued by the Central Banking Committee, both for themselves and for the Provincial Banking Enquiry Committees, there is a peculiar and deep importance attaching to the four issues mentioned by my Committee here.

2. The first is the necessity for reviving the system of shroffs in those places from which it has disappeared, and strengthening it in those places where it is continued but with diminished prestige and influence. From times immemorial shroffs have proved themselves a vital link in Indian trade, commerce and industry and agriculture, and my Committee consider it extremely unfortunate that the place which they once held as the very apex of all these came to be in time, through several causes, dislodged, and they have been criticised adversely in several quarters owing to the defective appreciation and realisation of the economic and financial problems pertaining to this country. My Committee have given their views regarding the strengthening of the shroff system in their answer to the questionnaire of the Bombay Provincial Banking Enquiry Committee. They strongly hold that the Imperial Bank should not now be required to open any branches, but that wherever there is a necessity felt for such a branch that bank should appoint an individual shroff or a group of shroffs where they can co-operate, to act as agent or agents to the bank for purposes of carrying on its business in that particular locality.

3. My Committee are strongly of opinion that if the labours of the Central Banking Committee, begun under such good auspices, are to bear fruition, a gold standard and currency should be introduced in the country as soon as possible. Without these it will not be possible to develop a good banking system in the country.

4. The third point is that indigenous insurance business should be developed and encouraged as much as possible and all that the Imperial Bank and the indigenous banks can do to foster it should be done. My Committee have suggested restrictions on the operation of non-Indian insurance companies and they hope that the Central Banking Committee will approve of such restrictions.

5. The fourth point is that there should be restrictions placed on the operations of non-Indian banks which have resulted in most of the export trade of the country being in the hands of non-Indian agencies. So far as the information of my Committee goes, non-national banks are not allowed

in an advanced British colony like Canada, and there is no reason why similar restrictions should not be placed on non-Indian banks working in this country. My Committee are referring to this in their reply to question No. 5 (section III), where they have suggested several requirements which should be observed by foreign banks working in the country. They are of opinion, however, that any foreign bank which wants to operate in this country should be registered in rupee capital with a majority of Indian directors and a majority of Indian shareholders. My Committee are sure if proper attention is paid to all these four points, it will mean much for the progress not only of banking but trade and industries of the country.

6. In this connection, my Committee may be allowed to suggest that the Indianisation of the Imperial Bank should be more rapid and that the chairman and majority of directors should be Indians both on the central and provincial boards.

7. My Committee will now proceed to answer the questionnaire in detail.

I.—Industrial Banks and credit facilities for India's main industries.

My Committee think that the time has now come for taking concrete steps for the formation of a bank specialising in financing of industries in the country. The demand is being made for such an industrial bank for the last so many years, particularly during the last one decade. The Industrial Commission in this connection wrote thus :

> " 291. We are of opinion, therefore, that an industrial bank should possess a paid-up share or debenture capital high in proportion to its total business ; it should observe the usual precautions in not allowing too large a share of its funds to be used for the benefit of any single interest or group of financially inter-dependent interests ; its loans on plants, buildings and land should be carefully considered and should be limited in each case ; the larger portion of its industrial business should be confined to the provision of working capital ; it should provide initial capital with caution, at any rate during its opening years, and should not itself at first attempt to float companies, though it may advise and assist in other ways persons who propose to do so. The main factor of safety in an industrial bank is the judicious limitation of each class of business to its proper proportions."

The following remarks made by the Bombay Advisory Committee before the Industrial Commission will also be interesting :—

> " We favour the establishment of a central industrial bank or similar organisation with a large capital and numerous branches, designed to afford financial support to industries for longer periods and on less restricted security than is within the power or practice of the existing banks. Such a bank would probably require a measure of Government support, but should not be brought under rigid Government control. "

My Committee wish to suggest that in order to obviate any difficulties regarding the definition of the word ' bank ', the industrial bank may not be called as such but the Industrial Financing Corporation or Syndicate.

My Committee would like to suggest that in order to encourage private capital to come out for investment in the Industrial Corporation, which may not be considered as safe as an ordinary bank, Government should give

a guarantee of some rate of interest on the share capital. This would obviate the necessity of Government having to find themselves the necessary finance. If such a guarantee of interest as was given to railway companies during the last century is given, it may be possible to start an Industrial Corporation with a capital of two to three crores. The liability on the State on account of interest charges will not exceed ten to fifteen lakhs even if all the schemes that the Corporation has financed were to prove failures. It is not intended that the Corporation should find the whole finance for either fixed capital expenditure or for working capital nor is it intended that it should finance industries like the cotton textile industry or the jute industry which are already existing in the country. If a *bona fide* attempt were made, however, for a new industry or for an advance in the cotton textile or jute industry, the particular company concerned should be given financial facilities by the Corporation, provided the technology and the personnel of the new enterprise are satisfactory. Government may well place some restrictions on the activities of the Industrial Corporation, *i.e.* :—

(*a*) Industrial Corporation must not be allowed to lend more than 10% of its capital to a particular industry ;

(*b*) Not more than 10% of its capital should be allowed to be lent to a particular group ;

(*c*) Not more than 10% of its capital should be allowed to be lent to a particular division of a province.

III.—Regulation of Banking.

Q. 1.—My Committee are not in favour of audit and examination of banks' accounts by examiners other than as provided at present. The other questions do not, therefore, arise.

Q. 2.—My Committee are not in favour of any such restrictions.

Q. 3.—My Committee are of opinion that the use of the word "bank" should be restricted and be used only by ordinary joint stock banks registered under the Indian Companies Act, banks which carry on lending and borrowing business. My Committee may, however, say that they are not in favour of placing any restrictions on activities referred to in (*a*), (*b*) and (*c*) as long as these firms or companies do not call themselves banks.

Q. 5.—My Committee suggest that foreign banks should be required to take out a license for being allowed to do business in this country. Even banks which are working at present here should be required to take out a license. The period of such license should be, say, three years and notice of six months at least should be given in case the license allowing the bank to do business here is to be cancelled or not to be renewed. The authority to issue, renew, or cancel such licenses should be vested with the Standing Finance Committee of the Government of India. These foreign banks should prepare a complete balance sheet of their Indian business in Form "F" and "G", as per specimen enclosed. In addition they should lodge their head office balance sheets with the Registrar of companies and also with the Standing Finance Committee of the Government of India.

Q. 6.—No bank should be allowed to start business here unless 25 per cent. of its subscribed capital is paid up. My Committee also suggest that the total clean advances should not exceed their paid-up capital and the total advances against immovable property should also not exceed the

paid-up capital. These restrictions should be considered to be in force for the first five years of the bank's existence.

Q. 12.—My Committee are strongly of opinion that banks should be protected against unjust attacks on their stability. They reiterate here the views which they expressed in their representation to the Government of Bombay dated 10th June 1924, an extract of the relevant portion of which is quoted below :—

> " ...... I am directed to convey to you their (the Committee's) opinion that the object in view can be served by requiring the complainant to obtain a certificate from the Advocate General to the effect that there is a *prima facie* case before the complainant can institute proceedings against a company ".

IV.—Banking Education.

In connection with banking education, the same is given, both in connection with the University degree and the practical diploma courses in local colleges. The students for the University B. Com. degree of Bombay can specialise in banking, and for that the Sydenham College of Commerce provides the tuition, whereas in case of Certified Associates of the Institute of Bankers (C. A. I. B.) both of England and India, there are local facilities in colleges like the Davar's College of Commerce of Bombay, where teaching for this practical diploma is being given since the year 1912. The other Universities also provide teaching in practical banking law, economics and other subjects that form the curriculum for banking education such as the University of Allahabad, Lucknow, Agra, etc. Similar institutions and schools also provide teaching in senior banking certified courses, such as those by the Indian Merchants' Chamber and the London Chamber of Commerce in different centres in India. In Calcutta also, similar facilities are provided. The local Indian banks, such as the Imperial Bank of India, the Bank of India, Ltd., and the Central Bank of India, have been of late encouraging in some way young men trained in local colleges to join their staff with a view to obtain practical training side by side with their education for practical diploma courses of the Institute of Bankers. Thus, a scholar who studies for the diploma of Certified Associate of the Institute of Bankers gets the advantage of attending the bank during the day and learning practical work there, at the same time attending during early morning hours lectures at a local college. Unfortunately, the exchange banks as well as foreign banks do not follow the excellent example of the indigenous banks mentioned above. It is absolutely necessary for our young men to come in practical touch with exchange business which they are at present unable to do owing to this factor.

The Indian Institute of Bankers which has just started work has done considerable good in formulating schemes of examination along the line of the Institute of Bankers of England. They have also started a journal on the footing of the English Institute where they propose to get contributions by those interested in banking problems and the journal is particularly to help young men who are trained for the profession of banking.

In course of time, the Institute proposes to establish centres all over India and through them to carry on educative work on the same footing as the English Institute.

The Institute of Bankers of England has arrangements by which facilities are offered for lectures and discussions as well as library, which precedent is being followed by the Indian Institute.

Under this scheme, prominent men in the local banking profession as well as economists and professors are asked to read papers on subjects of their own specialisation thereby inviting and encouraging discussion among the younger members of the profession.

There is a good demand for young men trained in banking in Indian banks, particularly for those who have secured diplomas from the Institute of Bankers as these diploma examinations are open only to those who are working in joint stock banks, a regulation which ensures practical as well as theoretical training.

V.—General Banking Organisation and Money Market.

Q. 2.—There is no co-operation between indigenous joint stock banks and other banks in India.

Q. 4.—The bank rate should be steady and as low as possible.

Q. 8.—The principal reason why more capital is not invested in the expansion of the existing banks or the establishment of new banks is the want of adequate support by legislation against the flimsy and malicious attacks which are sometimes launched against banks.

Q. 15 (d).—So far as my Committee are aware, excepting lending money against Government securities deposited with the Imperial Bank, nothing has been done.

Qs. 17 and 18.—The Imperial Bank is at present, for all practical purposes, a Government Bank and enjoys as such extraordinary facilities at the hands of Government and naturally is capable of attracting to it public credit. Though the Imperial Bank is an institution owned by shareholders, it is allowed the enormous advantage of public funds and its shareholders reap the benefit of free Government balances to the tune of Rs. 7 to 8 crores. Armed with this and other advantages its direct competition with the indigenous joint stock banks and indigenous bankers becomes sufficiently formidable to scare the latter away from the banking field.

After the establishment of a Reserve Bank in India, the Imperial Bank should be made to rank as an ordinary indigenous bank. All restrictions with regard to business now imposed on it should be removed and it should divert its resources towards financing the export and import trade of India which is now being monopolised by the foreign exchange banks.

Besides being the depository of Government funds, it is the sole banker of many railway companies, port trust and such other corporate bodies, and the principal Indian States also deposit their surplus with it. To encourage indigenous joint stock banks of stability, say those with a capital and reserve of Rs. 2 crores and over, it is desirable that Government should recognise them as banks with whom railway companies, States, and corporate bodies may deposit their funds. They should be entrusted with Government Treasury work and a portion of the Government's savings bank balances and cash certificate proceeds may be placed with them as term deposits.

FORM "G".

1. The Share Capital of the Bank is Rs. divided into shares of Rs. each.

2. The number of shares issued is . Calls to the amount of Rs. per share have been made under which the sum of Rs. has been received.

3. The Liabilities of the Bank on the were :—

	Rs.
(a) On Current Accounts, Call Deposits, Fixed Deposits and Savings Accounts.	
(b) Debts due to Banks, Agents and Correspondents .	
(c) Debts due against part of Securities shown below .	
(d) Bills payable and other sums due by the Bank .	
(e) Unclaimed Dividends and Rebate on bills Discounted.	

4. The Assets of the Bank on that day were :—

Cash in Hand, at Banks and Bullion on Hand . .

Government Securities . . . . . .

Cash Credits, Loans and Overdrafts . . . .

Bills Discounted. . . . .

Bank Premises, Land and Buildings, Office Furniture, Stamps, etc.

FORM "F"

LIABILITIES.

Capital :

Authorised	shares of Rs.	each.
Issued and subscribed	shares of Rs.	each.
Paid-up	shares of Rs.	each.
Amount received on	shares forfeited.	

Reserve Fund

Contingency Fund

Deposits :—

Current and Savings Banks Deposits.

Fixed Deposits including Savings Fixed Deposits.

Debts due to Banks, Agents and Correspondents.

Debts due to Banks, Agents and Correspondents secured by Bills and Investments *per contra*.

Bills payable and other sums due by the Bank.

Unclaimed Dividends.

Rebate on Bills Discounted.

Branch Adjustments.

Acceptances for Customers :—As *per contra*.

Bills for collection :—Bills receivable as *per contra*.

Profit and Loss Account :—

Contingent Liabilities :—

OR BANKS.

ASSETS.

Cash in hand.

Cash at Bankers.

Deposits at call and short notice.

Bullion on hand.

Investments :—

Government Loans, War Bonds and other Gilt-edged Securities at or under Market Rates.*

Debentures and preference shares of Joint Stock Companies.

Shares in Public Companies.

Loans and other advances :—

Cash Credits, Demand Advances and Loans Bills Discounted and purchased.

Particulars required by Act VII of 1913 :—

(1) Debts considered Good and in respect of which the Bank is fully secured.

(2) Debts considered Good secured by the personal liability of one or more parties as under :—

(*a*) Debts due on Bills Discounted.

(*b*) Debts due on joint and several Pro. Notes.

(*c*) Debts due on temporary overdrafts, Demand Cash Credits, Personal Security, etc.

(3) Debts due by Directors and other Officers of the Bank, without Security.

(4) Debts due by Directors of the Bank jointly with other persons.

(5) Debts due by Directors of the Bank on Securities and considered Good.

(6) Debts due by Joint Stock Companies guaranteed by their Agents, a Director of the Bank being a member of the firm of Agents.

(7) Debts considered bad or doubtful not provided for

Land and Buildings :—At cost.

Less :—Amount provided for in previous years.

Bank Premises :—At cost.

Less :—Amount already written off Customers for Acceptances *per contra*.

Bills receivable.

Other Assets :—

Office furniture and fittings.

Less :—Amount written off for Depreciation.

Stamps, Stationery, etc.

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* In case the market rate is less than the book value, both valuations should be shown.

No. 52.

Letter from the Secretary, the Karachi Chamber of Commerce, No. 29-C. F. 7, dated the 22nd January 1930.

I am directed to refer to the questionnaire issued by your Committee, and to submit this Chamber's replies as follows :—

I.—Industrial Banks and credit facilities for India's main Industries.

1. Karachi is not an industrial town in the generally accepted sense of the term.

It exists almost entirely as an entrepot for the disposal of surplus agrarian products and meeting the requirements of its hinterland as to imported goods.

There is no purely industrial bank established here.

The commercial and exchange banks, of course, are bound to keep their assets more or less liquid as their liabilities are largely on demand or at short term.

In the case of industrial enterprises in the city :—

(a) Fixed capital expenditure must, therefore, be financed in the ordinary manner either in the shape of shares or debentures.

(b) There is no difficulty about obtaining over-drafts provided they are for legitimate working purposes and are covered by easily liquidable assets.

We are not aware of any difficulties in these respects for sound undertakings.

2. (a) In many cases the merchants finance their business with their own capital.

(b) In other cases, they can only put up a proportion of their capital as margin and for the rest have to take over-drafts from their bankers on letters of lien.

As far as we know there are no difficulties in Karachi over finance for any sound and stable merchants. If anything, owing to competition banks are apt to be overgenerous.

3. Rates of interest vary with the Imperial Bank of India Rate and they vary from that Bank Rate upto 1% above according to the circumstances of the cases and the liquidable nature of the security.

We do not think that there are any difficulties on these heads in Karachi where banking facilities are fully adequate.

4. We are doubtful of the advisability of banks other than strictly industrial banks, doing a minimum of commercial business, undertaking the financing of industries except in regard to a turnover that is always in a liquidable form.

It is most dangerous for a commercial bank having the bulk of its liabilities on demand or at short term to tie up its assets in "frozen" forms.

Such practices have led to enormous losses of depositors' monies wherever they have been followed.

We consider it a fundamental axiom that industries must be financed by money subscribed for that purpose in the ordinary way and not by loans from commercial banks, except as a purely temporary measure.

If the rest of the question really involves the proposition that effort should be made by Government at the expense of the general taxpayers to assist in the establishment of special banks to assist urban industries, we are very doubtful as to the advisability of the idea.

It appears to us it would do nothing but lead to reckless promotion of wild-cat schemes most damaging to public credit.

II.—Financing of Foreign Trade.

1. There is no difficulty in the obtaining of credit for import and export business in Karachi by any reputable merchant with a decent margin of security in a liquid form.

2. Banks make advances and allow over-drafts on fiduciary receipts and letters of hypothec on easily liquidable goods to all reputable merchants.

The rates fluctuate with the Bank Rate as mentioned in answer 3 above.

Export bills against which the shippers have the usual credits are readily bought by all exchange banks.

Where the shipper has no bank credit from the buyer, banks of course have to take precautions to cover themselves in case of non-payment.

The exchange rates in Karachi as between buyers and sellers are cut very close indeed owing to the over-competition among banks mentioned in I (1 *b*) *supra*.

3. (*i*) (*a* & *c*) These facilities are *good* in Karachi.

(*b* & *d*) We do not think further facilities are required.

(*ii*) No.

III.—Regulation of Banking.

1. We are of opinion that no organization should be allowed to use the title of bank and so attract deposits from the public under the present free and easy conditions.

We are opposed to the small local bank system followed in America which results in a large number of petty failures every year.

In India such failures must be guarded against most carefully.

Otherwise, public confidence, already shaken by the bank failures in 1913, which are not forgotten, by the failure of the Alliance Bank of Simla, the Bengal National Bank, and locally the Karachi Bank, will not revive.

We are inclined to say that we consider that all banks whose head-quarters are in India should be compelled to issue statements certified by independent professional accountants at suitable intervals.

Banks with their headquarters in England already follow that practice.

2. The danger in India more than most places is for the banks to tie up their funds in "frozen" assets, such as factories, plant, land and buildings.

We do not know how this tendency can be checked while property owners, etc., are prepared to pay such very high rates of interest.

We do not think that Section (8) of the Imperial Bank of India Act should be altered while that bank occupies its present position as partly a commercial bank and partly a Bankers' Bank.

Revision, if any, could only be undertaken when the Imperial Bank definitely sheds its duties as a Bankers' Bank on a Central Bank being instituted.

3. Please see No. 1 above.

The anxiety is particularly in regard to the collection of deposits from the public.

4. No.

5. No. The public who utilise the services of such banks are invariably enlightened and far-seeing persons who are not likely to be let in by an unsound institution.

6. It is possible that a special Act covering banks and banks only is required.

(*a*) Subscribed capital should not be below a certain fixed minimum of the authorised capital.

(*b*) The capital actually paid up should not be less than 25 per cent of the nominal authorised capital.

(*c*) & (*d*) It seems impossible to ensure sound management by means of legislation.

We have already recommended the compulsory publication of certified balance sheets at appropriate intervals.

7. No. We think measures to prevent such failures far more important than liquidation which is bound to be protracted in the case of a bank failing.

8. In 1913, dishonesty, as also in the case of the "Bengal National Bank". In the case of the "Alliance Bank of Simla" rascality in London and blind credulity on this side. In the case of the "Karachi Bank" inexpertness in the management.

In all the above cases anything like "assistance" would have only been throwing good money after bad.

Suggest dividends be restricted until reserves are built up.

9. In our view the banks that have been in difficulties in the last 20 years in India were all better "wound-up".

10. No suggestion to make.

11. No.

12. No.

13. Income-tax, super-tax and stamps are the biggest tax on the banks.
Our answer to the rest of the question is in the negative.

IV.—Banking Education.

1. We know of none.

The best education for youth going into banking is a good general education supplemented by an apprenticeship of not less than 3 years in a regular bank.

2—7. We have no observations to offer.

8. Their prospects in banking must depend on their personal capacity, integrity and character as in every other walk in life.

We do not attribute the slow development of banking to lack of training in India.

We attribute it rather to the ignorance, want of confidence and bad monetary habits of the masses of the people.

V.—General Banking Organization and Money Market.

1. No.

2. Such co-operation should not be direct but through the medium of a central institution.

3. No. The clearing house in Karachi works to everybody's satisfaction.

4. The Indian Bank Rate should be regulated by a Central Banking Institution in close touch with the Finance Department of the Government of India, that is to say, as closely as possible like the working of the Bank of England in touch with the Treasury.

5. In 1913 on the bank failures and in August/September 1914 on the outbreak of the great World War.

One can hardly describe such panic as unjustified.

6. Frauds on banks are a common form of crime throughout the world.

The only remedy is less credulity on the part of the bank managers and closer inspection of alleged stocks on which overdrafts are taken.

7. (*a*) Economy in management is a most expensive form of organisation.

(*b*), (*c*) & (*d*). No.

8. The capital of a bank is little more than enough to provide its offices and expert staff.

The bulk of the bank's working capital necessarily comes from its constituents' deposits.

Dividends may appear high on the subscribed capital.

But on the totals of the balance sheets, they are small, and on the actual turnover they represent a tax that is absolutely insignificant.

9. There has been enormous increase in bills discounted in the U. S. A. since the Federal Board was instituted.

It is argued by Sir Henry Strakosch that a similar development would take place in India were a Central Bank instituted.

10. Not in Karachi.

12. Banks in Karachi follow the best English conventions in all these matters.

13. Quite useful.

14. No.

15. These are more matters of argument than of fact.

16. No information.

17. Its future must depend on what happens as regards a Central Bank.

18. Deposits free of interest, small profits on transfers between Treasury Centres. It must, however, be pointed out that the Imperial Bank in return for these advantages fulfils very important functions without other compensation. It would not be possible to spread such business over banks generally.

No. 53.

Letter from the Secretary, the Chamber of Commerce, Madras, dated the 2nd April 1930.

I beg to enclose replies to the questionnaire received with your letter No. 1216, dated 12th March 1930.

I.—INDUSTRIAL BANKS AND CREDIT FACILITIES FOR INDIA'S MAIN INDUSTRIES.

Q. 1.—State with reference to one or more industries, etc.

A.—In our opinion fixed capital expenditure and block should always be supplied by public or private subscription of shares or debentures in the undertaking.

Q.—State also how far in your opinion these requirements, etc.

A.—With regard to groundnuts and cotton in this province, the movement of the crop is in the first instance satisfactorily financed by the indigenous banker in the districts or by advances from large firms who take over the crop when harvested. This business could never be satisfactorily worked by established banks as it would not be possible for them to be in close touch with the agriculturist on the spot.

Q. 2.—Different methods of financing, etc.

A.—We have no improvements to suggest.

Q. 3.—Give particulars of the rates of interest, etc.

A.—The rate of interest in Madras for loans against approved security is usually 1 per cent. over the Imperial Bank Rate. The rates charged by the indigenous banker in the mofussil are generally much higher but vary as in all such cases with the circumstances and position of the borrower.

Q. 4.—If in your opinion banks in India, etc.

A.—We think that any sound industrial proposition with reasonable promise of success would be able to obtain the financial assistance necessary but of course many doubtful schemes might not be able to find finance. We consider that banks as they exist at present are quite capable of supplying all the finance required by industries.

We are not in favour of trade banks specialising in special trades. We do not approve at present of industrial banks as attempts in this direction in the past have not proved successful.

II.—FINANCING OF FOREIGN TRADE.

Q. 1.—Would you state, etc.

A.—We think that merchants are at all times able to obtain from the existing banks all the assistance they require to finance their import and export trade provided they are in good repute and known to be in possession of means in proportion to the extent of the trade they do. In many cases banks are unable to ascertain even roughly what the financial status of a merchant may be. In that case the merchant may find difficulty in securing the finance he requires but he has only himself to blame. It would be advisable for merchants in their own interests to have their books regularly audited and their correct position regularly drawn out from time to time. By so doing, they could command better credit.

Q. 2.—What are the credit instruments, etc.

A.—Shipping letters of the lien or hypothecation of goods in course of shipment are the first credit documents employed. The main documents, however, are the actual shipping documents which are negotiated freely by the Banks.

The import trade is usually financed by bills of exchange which are advanced against by banks in the countries from which the goods are exported. On the arrival of the goods in India, considerable assistance is given to the importers by the banks in the way of deliveries against acceptance of the relative bills or against trust receipts or by way of loans against the goods, thus enabling the importer to pay the relative bill. Clean credit is not general but approved clean bills are frequently negotiated by banks.

Advances against shipping liens, etc., are generally 1 per cent. over the Imperial Bank Rate with a minimum of 6 per cent. Import bills generally include a clause charging interest at a round rate of 6 per cent. until the date of payment of the relative bill. Seasonal fluctuations do occur but these are regulated by the Imperial Bank Rate.

Competition sees to it that rates for export bills do not get out of hand and the exporter has nothing to complain of in that way.

Q. 3.—Have you any suggestions to make regarding, etc.

A.—The present methods of warehousing are satisfactory, we think, so far as imports are concerned but the warehouse accommodation for the exports from Madras has been inadequate. This, however, has the attention of the Madras Port Trust and further warehouses for the accommodation of goods awaiting shipment are in course of erection.

The releasing of import goods under trust receipts is based on the credit of the merchant.

Banks generally would like to see the railway receipt legally recognised as an absolute legal title to the goods covered by the same. If this was made indisputable, it would facilitate business to a great extent.

III.—Regulation of Banking.

Q. 1.—Are you in favour, etc.

A.—Yes, in the case of banks incorporated in India. Branches of banks operating in India with head office outside India should lodge their consolidated audited balance sheets issued by their head offices with the Finance Department of the Government of India.

Balance sheets should be certified by chartered accountants.

Q. 2.—Are you in favour of any kind of restriction, etc.

A.—No. Certain restrictions are already imposed on the Imperial Bank.

We consider the title "bank" should not be allowed unless the company is registered under the Indian Companies Act and has a fully paid-up capital of an amount to be fixed by Government. No firm should be allowed to use the title of "bank" unless their banking funds are kept entirely separate from their trading funds and a separate audited balance sheet published.

Q. 4.—Are you in favour of defining, etc.

A.—We do not approve of any class of bank having their operations limited by legislation. Interference of this sort would be detrimental to trade. The scope and activities of co-operative banks should be defined as from their constitution they are not designed to undertake the ordinary transactions of commercial banking.

Q. 5.—Do you think that foreign banks, etc.

A.—We think all foreign banks, other than Indian and British, should be licensed. It would act as a safeguard against doubtful foreign banks operating in India. The license might be issued by the Finance Department. The operations of a bank holding a license should not be in any way governed.

Q. 6.—A bank which is a limited, etc.

A.—Yes, we consider the position quite satisfactory but if Government desire, they could introduce some rules which would cover the points suggested. The paid-up capital should bear a reasonable proportion to the authorized capital. We would suggest a paid-up capital of not less than Rs. 5 lakhs. Fully audited balance sheets should be published annually.

Q. 7.—Have you suggestions, etc.

A.—No suggestions.

Q. 8.—Would you state the principal, etc.

A.—Bad management principally. Injudicious advances and want of reserves. It would be difficult to suggest remedies.

Q. 9.—It has been suggested, etc.

A.—Any plan for reconstruction must be left to a Committee of directors, shareholders and creditors, who would be looking after their own interests in adopting or refusing any plan for amalgamation or reconstruction. It would be difficult to suggest any provision to deal with liquidation, amalgamation or reconstruction.

Q. 10.—It is complained, etc.

A.—No suggestion.

Q. 11.—Are you in favour, etc.

A.—Preferential deposits of any nature are not advisable.

Q. 12.—Have you any suggestions, etc.

A.—We do not think legislation could deal with such criticism.

Q. 13.—What are the various taxes, etc.

A.—Income-tax and super-tax, and we do not consider these interfere with the development or amalgamation of banks of standing. Taxes such as the district municipalities tax should not be imposed.

IV.—Banking Education.

The Indian Institute of Bankers has now been formed and should be able to suggest the proper type of education.

V.—General Banking Organisation and Money Market.

Q. 1.—Do you find, etc.

A.—No.

Q. 2.—Have you any suggestions, etc.

A.—Banks generally can get advances against security from the Imperial Bank and in the same way indigenous banks, shroffs, sowcars, chetties, etc., can also get advances from their bankers against hundis or other forms of security. We have no suggestions to make.

Q. 3.—Have you any suggestions, clearing house, etc.

A.—The Bankers Clearing House in Madras works very satisfactorily and we have no suggestions.

Q. 4.—Have you any suggestions, Bank Rate, etc.

A.—The Imperial Bank at present regulates the Bank Rate but if a Central Bank is established it would become the care of that Institution.

Q. 6.—Can you indicate, etc.

A.—Frauds do happen from time to time and stricter regulations have to be introduced to meet them. We do not consider such regulations entail any hardship. The position is fully considered before such regulations are made.

Q. 7.—Have you any suggestions.

A.—No. Such matters must be dealt with by each bank to suit their internal arrangements which must vary to some extent.

Q. 8.—Considering that the dividends, etc.

A.—Banks paying the higher dividends are in a position to do so on account of the large reserves which they have steadily built up over a large number of years and the resources of such banks being quite adequate to meet their requirements, they do not require to increase their capital.

Q. 9.—Do you support, etc.

A.—This we think is a debatable point but we think banks generally find bills in sufficient quantities against which to make advances.

Q. 10.—Have you any suggestions.

A.—We have no suggestions.

Q. 11.—Can you describe, etc.

A.—Brokers of various classes generally have associations of their own, many of which are recognised and work harmoniously with the various banks.

Q. 13.—How far banks, etc.

A.—Quite successful in Madras. Up-country godown accommodation is frequently inadequate.

Q. 14.—Have you any suggestion.

A.—Banks generally appear to be quite able to finance commerce, industry and agriculture.

Q. 15.—To what extent has the Imperial Bank, etc.

A.—As a bank generally.

Q. 17.—Have you any views, etc.

A.—We have no views.

Q. 18.—What facilities, etc.

A.—We have no information.

No. 54.

Statement of evidence submitted by the Committee of the Maharashtra Chamber of Commerce, Bombay.

The Committee of the Maharashtra Chamber of Commerce do not propose to reply to the questionnaire seriatim. They mean to confine themselves to a few important points only.

A detailed and full inquiry into the state of the existing banking facilities in the country, with a view to see how these can be improved so as to provide finance and encourage the commerce, industry and agriculture of the country, was a necessity and the Committee of this Chamber are glad to note that the Central Banking Inquiry Committee are fully going into the subject. Far from belittling in any way the importance of other questions the Central Banking Inquiry Committee are going into, the Committee of this Chamber would like to specially bring to their notice four questions of great national economic significance. These are (*a*) the linking of shroffs and savkars with the central banking organization of the country, (*b*) restricting the operations of non-Indian banks and (*c*) foreign insurance companies and last but not the least (*d*) introduction of a full-fledged gold standard and currency.

Linking up the Shroffs and Savkars with the Central Banking Organization of the Country.

1. India is a very large country. The population is very differently distributed, being mainly a rural population scattered through its large number of villages. The shroff is an institution which has weathered many a storm. He is there through all the changes and vicissitudes of economic and political life the country has seen and he has been serving people's needs all this time as best as he can. There have been a few joint stock banks in the country but these are few and far between and the shroff still forms the pivot on which the economic life of the country as a whole hinges and who still largely supplies the banking facilities of the country, particularly in the rural areas. He is still an instrument of the circulation of goods and money to a large extent and he can be turned into a more modern and useful instrument. The present joint stock banks do not even meet to the full the requirements even of the places where they are situated; and it does not seem likely that in a vast country like India it will be possible to have in the near future anything like the 4,600 branches of banks as in Canada or something like the 27,000 banks as in the United States of America where no less than 2/3rds of these are situated in small communities having a population of 5,000 or less. The only way in which it is possible, according to the Committee of the Chamber, to make available on any extensive scale banking facilities in this country, is by linking up shroffs in various places with the central banking organization of the country. The institution is there from old days as observed above and it will be but proper to make use of it. The shroffs may be recognised as agents either individually or jointly, wherever need of banking facilities is felt, instead of opening fresh branches of the Imperial Bank or trying to found more joint stock banks. The recognised shroffs will, of course, have to submit to certain restrictions such as inspection and auditing of their

accounts by proper authorities, their undertaking not to speculate, etc. This, according to the Committee of this Chamber, is the only way of expeditiously and economically making the banking facilities available on a larger scale in the country.

FOREIGN BANKS AND FOREIGN INSURANCE COMPANIES.

2. The question of imposing restrictions on foreign banks operating in this country is also an important one and as such it deserves full consideration at the hands of the Committee. These non-Indian banks control at present most of the export and import trade of this country. The export and import trade of the country normally averages to about 325 crores and 225 crores of rupees annually. The value of our total exports and imports for the year 1928-29 is Rs. 3,301,275,765 and Rs. 2,532,419,200. The question, therefore, of securing this banking business for Indians is an important one. Practically the whole of the profit in this business is going to foreigners. The Committee of this Chamber think that we in this country have no correct idea of the details of the assets of these banks. Nor do we know of their investments and commitments. We have no control over them as they are registered in England or elsewhere, nor can we always gauge the qualifications of their directors. It is true that their business has been free from trouble lately but this gives no security for the future. Restrictions on banking do obtain in the Dominion of Canada, where banking in its various forms is virtually secured to the Canadians by law. The Committee of this Chamber think that no foreign bank should be allowed to carry on its business here unless it has 75 per cent. of its capital Indian and unless it has at least ¾th of its directors Indian.

FINANCING OF FOREIGN TRADE.

Foreign trade is in a very unsatisfactory condition from the Indian point of view, it being mostly in foreign hands. The reason why the Indian plays such a negligible part in it is the paucity of financial facilities. Most of the important foreign countries have their banks in India known as exchange banks, while no Indian bank has its branches in foreign countries. It is believed that these exchange banks favour naturally their own nationals, generally advancing a very substantial portion of the value of the goods purchased up-country. The banks receive back the money advanced in a European or foreign port against delivery of the bill of lading or bill of exchange. These facilities are not available to Indians as freely and hence the need of some restrictions on foreign banks on the lines indicated here.

3. What has been observed above in respect of foreign banks, the Committee of the Chamber would like to state, also applies *matatis mutandis* to foreign insurance companies operating in this country. It is difficult to say precisely, in the absence of statistics, what amount these foreign insurance companies annually gather in this country by means of premium collections. They have been doing this for the last so many years. Indians have just entered this field. There is no doubt these non-Indian companies collect vast sums and that the same are used for the economic development of their own countries, as a reference to the list of the Sun Life Insurance Co.'s investments will make clear. If foreign insurance companies are to be allowed to operate here, it should be made obligatory on them to get themselves registered here as Indian rupee companies with a ¾th majority of

Indian directors and with 75 per cent. Indian capital and Indian management. It should also be compulsory for them to invest all monies in Indian Government or Trust securities.

INTRODUCTION OF FULL-FLEDGED GOLD STANDARD AND CURRENCY.

4. The Committee of this Chamber are of opinion that it will not be possible to build a healthy banking system on proper foundations unless India has a full-fledged gold standard and gold currency. The present position of the currency of the country is that it consists of token silver coin whose legal tender value is much above its intrinsic value. It is, therefore, every way desirable to have a scientific and automatic currency. Gold standard, as people have known it in pre-war days, cannot be said to be unscientific or antiquated either, as can be easily seen from the desire to-day of every country using paper internally to return to it. A completely sound currency means that it is freely redeemable in gold, the only medium of payment internationally accepted, as observed by Mr. Albert Strauss, the Vice-Governor of the Federal Reserve Board. A Gold currency alone can rightly and eminently fulfill certain indispensable objects and satisfy certain basic needs of economic life, which a sound system of currency ought to do. It alone can be a universally acceptable medium of exchange, a standard for deferred payments and a store of values. This country has so far heavily suffered due to exchange manipulations, and it is high time, the Committee of this Chamber think, to have an end put to all this confusion once and for ever by having an effective gold standard in the interest both of our internal and external trade and also in the interest of economic stability and industrial development of the country.

INDUSTRIAL BANKS AND CREDIT FACILITIES.

5 Industrial financing institutions are a great desideratum in this country, especially for supplying the working capital for industries. The Committee like here to sound one note of warning lest their suggestions should be misunderstood. If corporations, syndicates or trusts are to successfully and usefully finance industries, the stability and prosperity of the industry must be assured. The Committee hold that for this purpose other things such as technical skill, etc., being there, the industry must be absolutely protected for some years against foreign competition. The Industrial Commission's Report adds at the end of paragraph 288, (*i.e.*, Industrial Banks in Germany and Japan), "It is alleged that behind these banks stand the Reichsbank and the German Government". It may be pointed out that Germany with all her high degree of technical and scientific efficiency is one of the few highly protectionist countries of the world. Private capital can seek industrial investment through an industrial corporation or syndicate, provided security and some return are assured. Even if Government guarantees a fixed return on the capital the public may subscribe to these industrial investments. The State will have to see that industries thus financed are protected in their infancy if the scheme is to work successfully and help the economic and industrial development of the country. Some restrictions may be placed on these syndicates or corporations by whatever name they are called. For instance, the corporation may be restricted to lend only upto 5 per cent. of its capital (i) to a particular industry or (ii) to a particular group of management or (iii) to a particular area, province or district, as the case may be.

Banking and its Regulation.

6. The Committee of this Chamber are not for any other method of audit and examination of bank's accounts than the one obtaining at present The Committee do not feel certain that there would follow any decided advantages over the present arrangement if the suggestion of having Government examiners is adopted.

The Committee of this Chamber have to state that foreign banks should be required to obtain a license for carrying on business here and this should also be applicable to such of them as are already operating here till such time as they get themselves registered here with majority of Indian directors, etc., as suggested at the end of topic No. (2) dealing with foreign banks and foreign insurance companies. Six months' notice should be given to the bank if its license is to be cancelled or not renewed. The period of license should be 3 or 5 years. There should be created a central, all-India authority to issue such a license and these banks should submit a balance sheet of their Indian business as also they should submit the balance sheet of their head offices to the Registrar of joint stock companies and the central authority.

Some provision such as certificate of the Advocate General should be made to protect banks from unjust attacks on them by way of vexatious legal proceedings against them. These suggestions, if accepted, are the Committee of this Chamber believe, calculated to repair in part the immense damage done to the economic interests of this country in the absence of any definite State policy in this behalf. It is on account of this that Indians have been so far denied their legitimate share in the foreign trade of their country. The eighteen foreign exchange banks in India annually receive in deposits 67 crores of rupees as against 64 of the Indian joint stock banks, of course the Imperial Bank being excepted. The amount of loans granted in India by these exchange banks is small compared with the amount of deposits they receive. Such restrictions, as have been suggested above, have been in force in France, Italy and Spain, and even in Britain the Cunliffe Committee have complained in their Report about "the conditions under which it is open to foreign banks to establish themselves in this country".

After the creation of the Central Reserve Bank, the Imperial Bank divested of its special privileges, can largely engage itself into the foreign exchange business, opening branches in London, in Europe, in Japan and in America. Other agencies will also come into being to work in this field.

Banking Education.

7. It has been often said that due to inadequate supply of properly trained men, development in banking in India is slow. To be fair, this charge cannot be said to be well founded when it is known that most of the banking institutions in India are in the hands of non-Indians and facilities in practical training and employment there are few for Indians. Indigenous banks in Bombay do provide scope for practical training in banking, and students studying for the examinations of the London Institute of Bankers avail themselves of it. The Imperial Bank also takes a small number for probationary assistantships. The pace, however, is slow and must be quickened. The value of a sound theoretical and practical training in banking is not well appreciated in this country. In England banks' clerks

are often encouraged to study principles, practice and system of banking in different countries of the world; they are given bonus or promotion on passing examinations like those of the Institute of Bankers, London. Our Banks can well emulate this example.

CENTRAL BANKING ORGANIZATION AND MONEY MARKET.

8. In addition to what has been said above, the Committee do not think any administrative and legislative action is necessary. At present there is less co-operation between the exchange banks, the Imperial Bank and the Indian banks. In the interests of a healthy development of banking it is necessary that there should be more harmony. The Exchange Banks Association can well allow Indian banks to be its members, which at present they do not do. Due to this want of closer contact between banks they are often not well informed with regard to the credit position of merchants and business houses.

9. There should not be sudden fluctuations in the Bank Rate. It should be steady. It should be a real indication of the condition of the money market and Government should have no hand in its regulation. The necessity for a Central Reserve Bank becomes all the greater when it is accepted that the control of currency and credit should be in the same hands. So long as Government control currency and the Imperial Bank the credit, no steadiness is possible in the Indian money market.

10. The cost of management can be perceptibly reduced if Indianization in the Imperial Bank of India is carried out on a much larger scale. The boards of directors, both central and local, should be Indianized early, as also the heads of departments whether at the Presidency towns or at the branches.

No. 55.

Letter from the Secretary, the Marwadi Chamber of Commerce, Ltd., Bombay, dated the 3rd March 1930.

I am directed by the Board of this Chamber to forward to you herewith for submission to the Central Banking Enquiry Committee the memorandum prepared by them on the questions raised in the questionnaire supplied by you.

I am also directed to say that my Board will be glad to depute their representatives to give oral evidence to amplify such of the statements contained in the memorandum as your Committee may think fit. The names of the representatives will be communicated to you on hearing from you in the matter.

I.—Industrial Banks and Credit Facilities for India's Main Industries.

Questions 1, 3 and 4.

1. For the growth and development of industries adequate supply of finance, in other words adequacy of banking facilities, is as vital a necessity as regular supply and circulation of blood are for the growth and development of the human body. It is a universally accepted principle which has been continually illustrated and established by the history of development of banking in Western countries where such banking development has invariably been followed by industrial expansion and progress. The existing condition of Indian industries, that have somehow come into existence, furnishes a further illustration of this principle. With the solitary exception of the jute industry of Bengal, which is mostly in the hands of European capitalists, all important Indian industries complain of and are suffering from lack of banking or financial facilities. Textile mills, sugar mills, match factories, film-producing concerns and numerous and various other industrial concerns, big and small, are working under the severe handicap of paucity of finance.

2. Past experience shows that whenever a group of bold individuals has resolved to start an industrial concern, they have found themselves faced with a discouraging prospect. They have usually met with indifference both from Government and the public and they have had to rely more on personal resources and influence than any outside help. In the case of a joint stock venture after the initial capital has been raised and the industry has been started the problem of securing additional capital soon crops up. From this stage onwards there is a continued struggle for obtaining finance and the managers and directors have to tax their brains to the utmost capacity of their resourcefulness in this connection. The facilities that are at present obtainable are drawn from different sources. For expenditure on fixed capital or block, an industry has to rely almost entirely on the share capital and, in subsequent stages, on debentures. The former is given by the general public, mostly mercantile public, and the latter are drawn largely from indigenous bankers.

3. The finances that are required from time to time as floating or working capital or for particular needs are met by the following agencies?

(i) The Imperial Bank of India.

(ii) Other joint stock banks.

(iii) Indigenous bankers.

(iv) Traders either in the capacity of buying and selling agents or as partners in the managing agency, and

(v) Ruling Princes.

It must be admitted that a substantial part of the facilities at present enjoyed by the major industries is given by the Imperial Bank. This has, of course, been done in a fairly regular way within certain fixed limits and on definite principles, though recent experience indicates a stiffening up in the bank's policy. Of a different category, though of a fairly substantial measure is the help afforded by certain of the Ruling Princes. The joint stock banks meet the day-to-day small requirements but they advance moneys strictly against produce, raw materials or such other easily realisable securities, and to a very small extent, on the general security of the industry. The sum total of the assistance given by these banks is an almost negligible quantity. The indigenous bankers are helpful by purchasing debentures and occasionally by advancing against movable securities, more or less, like the joint stock banks. In some cases in Bombay, merchants or merchant-bankers have been instrumental in affording valuable help by making large advances of the consideration of being appointed and maintained as agents for buying raw materials and selling or distributing the products of the industry concerned.

4. Recapitulating in brief, it may be said that none of the existing banking agencies provides any finance at all for fixed capital expenditure, whether before or after an industrial concern is started. Ordinary current requirements are met by the Imperial Bank and to a small extent by other joint stock banks. Special floating capital requirements are, to a certain degree, coped with by Ruling Princes, indigenous bankers and merchants. But for the help from the last three sources a concern has to submit to a lot of hunting about and canvassing, resulting in certain cases, in loss of credit and prestige. This kind of assistance is not open indiscriminately to all and is not always adequate. Besides, the terms on which finance is given by these agencies are certainly not such as one would desire. It may also be noted that the help from Ruling Princes is easier to secure and on better terms for enterprises meant to be undertaken within the precincts of their respective States than for those of outside.

5. The reasons why the joint stock banks and the indigenous bankers do not freely give advances to an industrial concern on the security of its immovable property—land, buildings, plant, machinery, etc.—are evident enough. Firstly, there is considered to be a certain element of risk, real or imagined, in such advances. Besides, all such banks and bankers maintain current accounts. They are consequently compelled to keep a large part of their capital in cash or in quickly realisable securities. The art in present day deposit banking consists in so adjusting the loans as not to render the occurrence of a run on the bank a source of real danger. No bank can afford to ignore this principle. It is an open secret that a certain Indian bank came to grief partly because of the fact that it assisted industries in partial disregard of this principle though, of course, with very laudable motives. Another relevant fact may be pointed out The Imperial Bank which is financially the most powerful joint stock bank in India and is consequently in a position to undertake industrial banking in

a certain measure is prohibited from doing so by law. In these circumstances any assistance in raising finance for initial fixed capital expenditure through the above-mentioned agencies is obviously out of the question.

6. Before proceeding to the remedies for the present unsatisfactory conditions my Board have to mention here that the usual rate of interest of banks on loans and advances to industries is generally at the Bank Rate. Sometimes it is even higher, *i.e.*, 1 per cent. over the Bank Rate. The latter is particularly true in the case of advances made by agencies other than the banks.

7. For the considerations stated in the foregoing paragraphs it has become imperatively necessary to take effective steps to form an industrial bank. It is an acknowledged need; and my Board strongly recommend that the public and Government should co-operate with each other in working out a practicable plan and thus be helpful in establishment of a financial agency that will not only give much-needed assistance to the existing industries but also to those that cannot be started for want of financial help. In progressive countries like Germany, France and Japan which have reached an advanced stage of industrial development, the respective Governments have, in certain cases, themselves contributed from State coffers a substantial part of the capital required for starting industrial banks. For a variety of reasons the Government of India cannot at present be expected to make such large contributions out of Government moneys. What, therefore, can easily be done, as the next best thing, is for Government to give a guarantee for interest at a certain rate on the capital subscribed by the public on the same lines as to the railway companies in the past. If Government guarantee 5 per cent. interest (it must not be less) then on the basis that the Industrial Bank is started on a paid-up share capital of 5 crores of rupees, a provision of about 25 lakhs of rupees will have to be made in the budget. A humbler beginning may be made with a capital of three crores and this capital may be subsequently increased to 5 crores. Even assuming that all the undertakings financed by the bank prove to be failures the Government of India will not have to set aside roughly more than about 15 to 25 lakhs of rupees in the annual budgets. There is a suggestion contained in a sub-question under question 4 that one industrial bank may be established in each of the provinces. My Board consider that it is not practicable in the existing conditions of this country, specially the financial position of the Provincial Governments. In the beginning efforts should, therefore, be made to start with a capital of three to five crores of rupees a Central Industrial Bank with a limited number of branches in industrial centres. The proposed Industrial Bank will have to work on certain well-defined principles and to submit to certain necessary limitations and restrictions. My Board should like to make the following suggestions relating to this proposal of an industrial bank:—

(1) The bank should be started with a capital of three crores of rupees which may later be increased to five crores.

(2) Government should guarantee interest on the total invested capital at 5 per cent. at the least.

(3) The bank should employ technical experts having full technical knowledge about the various industries to advise on applications therefrom for loans.

(4) Government may employ a competent expert who should advise and report to them about the nature of commitments of the bank and its financial position from time to time.

(5) The bank should not be allowed to lend more than 10 per cent. of its capital to a particular industry.

II.—Financing of Foreign Trade.

Questions 1 and 2.

8. Foreign trade in India is, from the Indian point of view, in the most unsatisfactory condition. The export trade is almost entirely handled and controlled by foreign exporters. Even in the import trade the Indian trader can assist but feebly. On the whole the part played by Indian traders in foreign trade is negligible. As far as the export trade is concerned the control of the foreign exporter over exportable produce is daily increasing so much so that his agents have penetrated the innermost agricultural centres where they purchase the goods for export to foreign countries directly from the village farmer.

9. The main reason why the foreigners have obtained a firm hold on the foreign trade and the Indian traders are unable to have a hand in it is insufficiency of financial facilities to the latter. The cause of this deplorable state of affairs consists mainly in the fact that all the important foreign countries have their banks in India commonly called the exchange banks and that no Indian bank has its branches in foreign parts and carries on foreign exchange business. The result in the matter of facilities of finance is discrimination in favour of the foreigner and against the Indian. It is a matter of common knowledge and experience that the exchange bank of a particular foreign country favours its nationals and deems its duty to provide all possible facilities to them for whom, in fact, it exists. On the other hand the treatment meted out to Indian traders by these exchange banks is cold and indifferent. An intelligible reason why it is so is the fact that these banks are in intimate touch with and know the financial position of their clients who are the nationals of the countries to which respectively such banks belong.

10. The effect of the conditions mentioned above is manifold. A few instances are cited here. If a foreign exporting house receives intimation in Bombay that its agents have purchased goods upcountry it immediately approaches an exchange bank which advances to it a substantial portion of the purchase value of the goods upcountry. When the goods reach the port they are shipped and a bill of lading is obtained which is handed over to the said exchange bank. The finance that such bank advances virtually for purchasing the goods in agricultural centres in India is returned to the bank in a port in Europe or Japan against delivery of bill of lading and/or bill of exchange. In marked contrast to this are the facilities, or more correctly speaking absence of facilities, obtained by Indian exporters. The Indian exporter has to pay the full price of the goods either in upcountry markets or in the ports and then after the goods have been put on board a ship does he obtain finance from the bank discounting his bill of exchange accompanied with the bill of lading?

11. There is also discrimination in other respects. The rates offered for conversion of the rupee into sterling and other foreign currencies and *vice versâ* are understood to be preferential to foreign traders. Again,

in connection with import trade Indian traders experience great difficulty in getting letters of credit opened. The banks concerned demand such high margins as to make opening of credits both ordinary and confirmed in certain cases prohibitive.

12. The question now is how to remedy the state of things described above and to make concrete proposals. Suggestions which my Board have considered suitable and effective have been made elsewhere in this memorandum. In this place, therefore, only a brief reference to the measures favoured by the Board is made. In their opinion the situation demands firstly, imposition of certain restrictions upon the foreign exchange banks so as to protect indigenous joint stock banks and to make the former to modify their present policy of indifference and even hostility to the interests of Indian nationals and secondly, development of a strong Indian exchange bank either by flotation of a new concern or conversion of one of the existing Indian banks into an exchange bank.

Question 3.

13. As in many other things connected with foreign trade, the question of facilities of warehousing should be viewed with the view point of the export trade as well as the import trade. So far as the import trade is concerned, the existing facilities except in regard to minor matters are fairly satisfactory. There is one grievance to which attention may be invited here. The rates charged by the port trust authorities in Bombay for storing imported goods in bonded warehouses are very high. This circumstance adds to the importer's difficulty in raising finance. It often happens that the importer, fearing lest the rent should go on piling up, has to part with the goods at unprofitable rates. This defect should be removed by reduction in the port trust charges in question.

14. The question of warehousing facilities relating to exportable commodities is a more important and urgent one. The capacity of the producer to get a fair price for the products of his field depends to a large extent on his holding power. The holding power of the Indian agriculturist has been through a number of causes so undermined that it is now considered to be lower than that of the peasant of any other country in the world. This weakness has been recently brought into prominence by the course of events in the cotton trade. In recent months Indian farmers have had to part with their cotton at rates much lower in parity to those of the other cotton-producing countries, particularly America. For example, we have witnessed this year Broach cotton being sold at prices (February 1930) which, after making due allowance for inferior quality, have been lower in parity to American prices by about Rs. 35 per candy. The parity of Umra and Bengal cotton has been even lower still. In fact anyone who cares to scrutinise the figures of parity between the prices of Indian and American cotton will find that the difference has been steadily widening since the beginning of the year 1927. These facts unmistakably point towards the one conclusion that the economic position of the Indian peasant has been steadily on the decline during the last two or three years. These facts constitute a proof, if proof was needed, of the diminished holding power of the Indian agriculturist and trader, which may not be challenged.

15. In these circumstances any measure calculated to add to the holding power of the Indian producer must be welcomed. In the considered

judgment of my Board one such effective measure is establishment of licensed warehouses. In this connection detailed proposals have been submitted to the Provincial Banking Committee. A brief summary of those suggestions are given below:—

(1) These warehouses may be of two **kinds, viz.—**

(i) Those established and worked with the assistance and under the control of Government, and

(ii) Those established by Railway Department or companies.

(2) On payment of a small charge for rent and insurance the goods of any farmer or trader may be stored in these godowns.

(3) On receipt of any lot of goods the manager of the warehouse should issue to the owner in prescribed standard form, a certificate or receipt mentioning therein the description and quantity of such goods.

(4) Such warehouse receipts should be made negotiable so that on their security requisite finance may be easily raised.

(5) Efforts should be made as soon as and wherever practicable to have godowns specialising in particular commodities.

(6) It should also be arranged, wherever possible, to get the quality of the goods analysed by competent experts and the result of this analysis noted on the warehouse receipt or it may also be supplied subsequently.

(7) The railway authorities can also help in this direction by having large sheds set apart for warehousing purposes. They should make arrangements so that a railway receipt in respect of any lot of goods may be issued on the same day on which such lot reaches the railway yard, shed or godown. This arrangement will necessitate two kinds of railway receipts. The new type of railway receipt will differ from the prevalent type in the below-mentioned particulars:—

(*a*) It will bear the date of entry of goods into the warehouse and not the consignment date.

(*b*) The railway authorities will have to despatch goods within a fixed number of days from the date of the railway receipt.

(*c*) The charge on such a railway receipt will include rent and insurance premia besides freight.

III.—Regulation of Banking.

Question 1.

16. My Board do not favour the suggestion of having Government examiners, as they are not certain that any decided advantages over the present arrangements will result from its adoption. At the same time the Board are not entirely satisfied with things as they are; and they would, therefore, welcome any better and suitable arrangement. What my Board desire is an arrangement by which fraudulent activities of evil-intentioned managements may be effectively checked, without undesirable obstacles being put in the way of good managements

Question 2.

17. Except as suggested in the following paragraphs my Board are not in favour of imposition of any restrictions on the business of different classes of banks in India.

18. In the opinion of my Board the use of the word "bank" should be restricted to—

(i) public joint stock companies incorporated under the Indian Companies Act which carry on or have been opened with the object of carrying on, the usual banking business including all sound forms of borrowing and lending and taking of current deposits, etc., and

(ii) foreign exchange banks incorporated as public joint stock banks under the laws of the respective countries of their origin and carrying on business under the restrictions proposed on the next page.

19. Every bank as defined above in part (i) should be subject to the following restrictions:—

(i) It should not commence business unless and until 25 per cent. of its subscribed capital is paid up.

(ii) It should not lend more than the amount of its paid-up capital on the security of immovable property.

(iii) It should not make clean advances on the security of single parties to an extent larger than its paid-up capital.

(iv) It must issue monthly statements of its liabilities and assets in proper forms prescribed by the Reserve Bank or the Government of India for the information of the public.

20. All Indian indigenous bankers, otherwise called shroffs, are private firms who carry on banking business in its various forms excepting the use of cheques. These bankers, as is well known, generally combine commission agency business with banking, though some of them are also engaged in trading on their own account. In the opinion of my Board these shroffs should be recognised as a distinct category of bankers and they should be allowed not only as heretofore to assist in giving banking facilities to the community at large without any hindrance or restriction but must also be afforded the facilities recommended on pages 14 and 15.

21. It has already been suggested that no agency which is not an incorporated joint-stock bank will have the right to be called a bank. Accordingly, a foreign private banking firm or individual will also not be termed as a bank. Such firms should be prohibited from taking banking deposits from the public, though they should have the right to engage themselves in other forms of banking business. Similarly, any foreign trading concern will have unrestricted freedom to give and take any deposits incidental to and necessary for carrying on the trade in which the same may be engaged.

22. My Board will now consider those agencies doing banking business in India which are branches of banking companies incorporated and having head offices in foreign countries. With a view to safeguarding and advancing the interests of the Indian people, specially the Indian merchants and bankers, it is highly desirable to impose some restrictions upon the foreign exchange banks. My Board are deliberately of opinion that following suggestions should go some way in fulfilling the needs of the situation:—

(1) No foreign bank should be permitted to receive banking deposits from the Indian public unless and until it gets itself registered under the Indian Companies Act (or other Indian Law that may hereafter come into

force) as a public joint stock bank, in rupee capital, a major portion of which is held by Indian shareholders and with a majority of Indians on its board of directors, provided expressly that any such bank may have full liberty to take deposits from the nationals of its own country as well as other non-Indian residents.

(2) Every non-Indian bank which does not convert itself into a company of the above description must be under an obligation in law to apply to the licensing authority in India for a license to commence or carry on business (other than of taking deposits from Indian nationals) which may be granted subject to the sole discretion of such authority under the conditions mentioned below:—

(*a*) The applicant should have a paid-up capital and a reserve aggregating to not less than £1,000,000.

(*b*) It should publish monthly statements of accounts and balance sheets in respect of its business done in India.

(*c*) It should have a local Board of advisers half of whom should be drawn from Indian traders, etc., for guidance in the matters of the bank's exchange business.

(*d*) The period of the license should be five years in the first instance renewable subsequently after every five years, provided that in the eventuality of cancellation of the license six months notice should be given.

23. My Board are emphatically of opinion that their recommendations are eminently fair and legitimate and their adoption is calculated to repair in some degree the immense harm that has been done to the economic and mercantile interests of this country in the absence of any definite State policy in consonance with national requirements and aspirations in this respect. This is also the reason why Indians have been disinherited from a rightful share in the foreign trade of their country. The eighteen exchange banks at present functioning in India receive deposits in India aggregating, according to Government statistics, to about 67 crores. The Indian joint stock banks, excepting the Imperial Bank, receive amongst themselves deposits of about 64 crores of rupees, a figure which is less than that of exchange bank deposits by three crores. This is certainly a sorry spectacle which no Indian can enthuse over. A comparison of the amount of loans granted in India by the exchange banks with the amount of deposits received by them should give one a real insight into the nature of their activities and the effect of the latter on national interests. The long experience of the step-motherly treatment meted out to Indian traders by these non-Indian exchange banks has made the latter impatient of their helpless dependence on foreign agencies over which the Indian public can exercise no control.

24. Moreover, India will not be the first to adopt this way of putting her house in order. Such restrictions as (i) licensing (ii) levy of a tax on capital (iii) levy of special taxes on profits and business turnover have been applied to foreign banks by countries like France, Italy and Spain, etc. Even Canada, a British Dominion, has, to the best of our information, adopted restrictive measures. Even in Britain the Cuncliffe Committee in their report called attention to the public grievance against "the conditions under which it is open to foreign banks to establish themselves in this country (Britain)" and suggested that Government should

consider the question. Moreover, in the opinion of my Board this is a matter which should stand or fall on its own merits and should be examined in the light of national needs alone.

25. My Board feel that the above measures by themselves will not be of much avail. It will, therefore, be necessary to supplement them with other and positive efforts to fill the gap occasioned by the absence of any Indian agency to do foreign exchange business. My Board's views relating to the formation of a Central Reserve Bank in India, made elsewhere, will show that after its formation the Imperial Bank should become a private concern divested of special privileges as also freed from restrictions prescribed by Government. The finest thing, as my Board think, that the Imperial Bank can do for the benefit of its shareholders and general mercantile interests is, after it gains freedom from present responsibility, to engage itself as largely as possible in foreign exchange business. For this, the Imperial Bank will have to begin by opening a branch in London and later to extend branches over the Continent, America and Japan. How this can be done and what shape the shareholders of the Imperial Bank will desire it to take and also what policy Government are to adopt in regard to the same, are questions about which it is futile to speculate at this moment. At the same time my Board feel confident that the future of the Imperial Bank apart, given room for development, required agencies are bound to spring up which should before long be able to cope with the country's needs.

Question 9.

26. My Board agree that it would be exceedingly desirable in public interest if on the occasion of a bank getting into difficulties, it can, circumstances permitting, be prevented from going into liquidation and instead be amalgamated with another bank occupying a strong position or if, in more favourable circumstances, such a bank can be reconstructed and rejuvenated.

27. But the Board find that it is by no means easy to set up a really effective machinery for the purpose and to discover a plan by the adoption of which satisfactory results may be ensured. They are of opinion that the only body which can be effectively instrumental in translating the idea into practice seems to be the future Reserve Bank of India. Until the time of its establishment the Imperial Bank may discharge this function.

28. My Board will now attempt to explain how this plan will actually work. The State bank should have provision under its constitution to create suitable machinery as and when occasion arises. Whenever a bank finds itself in difficulties, it should have the right to make an application to the State bank for the needful being done. Upon this a small Committee of experts including a competent auditor appointed by the Board of the State bank should go into the affairs of the bank and report to the Board as quickly as possible. Acting upon this report the Board can decide the suitable course of action. If the report discloses a fairly satisfactory condition, the State bank should provide such assistance as possible and therewith allow the directors of the weakened bank, on certain conditions, to reconstruct it. If that is not possible, negotiations may be carried on with the other banks and the one that offers the best terms to the depositors and shareholders of the bank concerned should be asked to take over its assets and liabilities and to pay the purchase price in such

amounts and in such time as may be settled. If neither of the above alternatives is found to be possible or practicable the bank concerned should be made to go into liquidation. But simultaneously with, the declaration of the bank in this connection, the State bank should issue a statement acquainting the public with its real condition.

29. In those cases also where a bank has not applied to the State bank for assistance and has had to suspend payment, the latter should immediately intervene and direct the Expert Committee mentioned above to investigate the books and affairs of the bank concerned. Acting upon the report of this Committee the State bank should immediately issue a public statement to allay excitement and prevent panic. If a plan of amalgamation or reconstruction is not found feasible in such a case, the State bank should act, more or less, as the Imperial Bank acted at the time of the failure of the Alliance Bank of Simla.

Question 10.

30. There is no doubt that the cost of liquidation is at present very high and efforts should be made to reduce it to a reasonable level. It is not an exceptional experience wherein the proceeds of realisation from liquidation proceedings are considered to be barely sufficient for the liquidator's remuneration and other items in the liquidation cost. In the opinion of my Board the remuneration of the liquidator should be the first item to which the axe of reduction must be applied. Other means of cutting down the total cost may be devised and carried out.

Question 12.

31. In recent times cases have occurred in which certain individuals whose motives are difficult to explain except in terms not very creditable to them have carried on frivolous litigation against certain banks and thereby attempted to injure their credit although in soundness and strength of financial position the same have in no way been inferior to other banks of the same category. While no one desires to protect fraudulent managements yet it is considered essential that full immunity from embarrassment caused by mischief-makers must be secured to those concerns which are genuinely and honestly managed. In this connection my Board should like to suggest that a provision be made in the law to the effect that on any application being made by a shareholder for instituting criminal proceedings under the Indian Companies Act against a bank a preliminary enquiry shall be held in camera into the allegations made; and the charges should be framed only if the result of such an enquiry, in the opinion of the Court, warrants the same.

IV.—Banking Education.

32. In my Board's opinion banking education in India can be divided into two classes, *i.e.*, (1) the education in the Western methods of banking imparted in English and (2) the education and training received by indigenous bankers or shroffs for conducting banking operations in the traditional Indian fashion. There are some facilities, though not entirely satisfactory, for theoretical and practical education of the former type But the indigenous banking is, unfortunately, in an unorganised condition and the facilities for training youths in the method of indigenous banking are therefore also unorganised

Questions 1 and 2.

33. As regards the former, there are a few educational institutions in India which specialise in imparting commercial education. In many Indian schools boys are given the option to take subjects of a commercial nature such as book-keeping, typewriting, a bit of commercial geography, etc. However, there is nothing particularly pertaining to banking in the courses prescribed for this elementary stage of training. There are some colleges exclusively devoted to commercial education such as the Sydenham College of Commerce Bombay, Commercial College of Cawnpore, etc. In these colleges, banking is one of the subjects on which education is given. But there is no particular banking course here which may be adopted separately and exclusively. Students are, however, coached by private institutions for qualifying themselves for the London Institute of Bankers' Examination. Recently an Indian Institute of Bankers has also been started.

34. As far as Bombay is concerned indigenous joint stock banks usually provide requisite facilities for giving training in banking practice of which students studying for the London Institute of Bankers generally do not find much difficulty in availing themselves. It is not certain whether in other places also the position is identical. The Imperial Bank of India takes a limited number of Indian apprentices for what is called the probationary Assistantship and trains them up in the different departments of banking. But the pace at which Indianisation is being effected by the Imperial Bank in its departments is too slow and a bolder and more progressive policy is urgently required.

Question 7.

35. As has been indicated above, there is lack of proper organisation and system in the present ways and means through which education in indigenous banking is at present provided. In former times, in every village and town there used to be a school in which banking was the main subject treated and which was commonly conducted by a single teacher. In the curricula of these schools such subjects as book-keeping, hundi business, etc., were included and boys were trained up in the same in a wonderfully short time. These institutions have mostly died out. Those that remain are in a forlorn and uncared-for condition. It may, however, be made clear that it is neither possible nor desirable to revive these institutions by a bygone age, for at best they can provide very narrow and one-sided development and although in quick arithmetical work, book-keeping and hundi practice the products of these schools used to be efficient they would be quite unsuited to the complex needs of modern times. Besides the theoretical education mentioned above, there has been a custom for long past to put boys in banking *pedhis* (offices) for receiving practical experience in indigenous banking. It may also be noted that in recent times the tendency has been to render banking a hereditary vocation. As a result the need for any kind of outside training has been dispensed with.

36. If India is to have a banking machinery spread out through the length and breadth of the land, its different parts working in perfect co-operation, co-ordination and harmony with one another and supplying all the needs of the present progressive conditions, the indigenous banking system will have to be helped, reorganised and improved. One of the most crying needs of indigenous banking is introduction of a sound system for

educating boys in the methods of indigenous banking. This system should be a compromise between the ancient and modern systems, accepting all that is valuable in old practices and forms and also adopting certain methods and practices of modern banking which, wisdom counsels, must be assimilated. For these reasons my Board recommend that in all existing schools a special course of indigenous banking modified on the above lines must be introduced. What the actual books and subjects should be is a matter to be worked out in detail by the provincial departments of public instruction in co-operation with indigenous bankers and commercialists.

V.—General Banking Organization and Money Market.

Question 4.

37. In the opinion of my Board it is in every way desirable that the Bank Rate should be kept as low as possible. Another essential requirement is that it should be maintained at a steady level, sudden rise or fall being avoided. In this connection it may be suggested that increase or decrease in the Bank Rate should not exceed ½ per cent. at a time except in times of grave emergency. It may be pointed out that the Bank Rate has not conformed to the above requirements often in the past and that though no hard and fast rule can be laid down in the matter an appreciable change for the better is called for.

Question 9.

38. The exact type of the bills prevalent in Western countries which have been found very helpful to trade for obtaining finance is not found in India. My Board consider that it is not practicable to introduce it here. But the instrument which used to discharge more or less the same function and render a similarly important service is the Muddati hundi. Some years ago Muddati hundis were very largely in vogue and they provided the mercantile community with a constant and easy source of finance. But the use of these hundis has greatly diminished in recent times. The main causes of this diminution in their currency appear to have been (i) the high stamp duty and (ii) the fact that joint stock banks ceased discounting the same as freely as before. There can be no doubt that the increased use of Muddati hundis should prove highly beneficial to trade. My Board, therefore, recommend that the stamp duty on Muddati hundis should be abolished as early as possible and the joint stock banks in India should help to encourage greater use of these hundis. In this way the want complained of in this question will, in course of time, be effectively removed.

Question 18.

39. The considered opinion of my Board on this question, as stated at another place, is that the Imperial Bank should after the establishment of a Central Reserve Bank be deprived of all concessions and privileges at present enjoyed by it as also freed from all the restrictions and limitations under which it has at present to work owing to its being a depository of Government finances. Reference is made here only to those concessions which have been conferred upon the bank under the provisions

of law by the Government of India. But if the municipal administrations or the Indian Ruling Princes choose of their own free will to give it certain concessions for efficiency of service or otherwise there should, of course, be no restriction.

40. Before concluding this statement my Board have to express their considered views on some questions intimately connected with the subject of this enquiry though these are not, perhaps, wholly covered by the questions contained in the questionnaire under reply. These questions are (i) introduction of the full gold standard with gold currency (ii) establishment of a Central Reserve Bank of India and connecting it with the different parts of the country's banking machinery including indigenous banking (iii) enacting a special law for banking and (iv) regulation of the activities of foreign insurance companies. All these questions will be as briefly as possible dealt with in the following paragraphs.

41. The question of introduction of the full gold standard with gold currency is to my Board's mind, of the foremost importance. It is unnecessary to repeat all the arguments in favour of the proposition. It will suffice to lay emphasis on two important points. Firstly, it is essential for the currency system of any country that it should enjoy the unqualified confidence of its nationals. The gold bullion standard is not expected to inspire such confidence. For centuries past silver has been looked upon by the Indian masses as the main, if not the only, measure and store of value. The way silver has been going during the last few years has hopelessly shaken public confidence therein and this distrust is bound to be reflected in the currency system of India. The way to restore it is to install gold in a concrete and visible shape in the place of trust so long occupied by silver. If paper is to be the only visible form in which value will be represented, as the gold bullion standard contemplates, the public confidence, instead of being restored, will be further undermined. Circulation of gold as the country's basic currency is, therefore, an indispensable necessity. Moreover, the introduction of the full gold standard is calculated to release for coinage purposes the vast amounts of gold at present lying unproductive. The effect of this will be of immense benefit to the country's trade and industry.

42. Secondly, the main reason advanced against the adoption of the gold standard is that it will increase much greater use of gold, which, for the maintenance of international equilibrium of value, must be economised. Consequent shortage in gold, it is argued, will make for reduction in world prices and thereby adversely affect world prosperity. It is a matter of fact now that in spite of the laudable anxiety of the Hilton-Young Commission to prevent any great depreciation in the price of silver, adoption of the gold standard in French Indo-China has considerably quickened the downward march of the price of silver. Nobody can guarantee that China will never go over to the gold standard, and when China takes that step, the effects that are believed to have been avoided by stopping India from embracing the full gold standard are bound, nevertheless, to follow. That is to say irrespective of what India may or may not do, use of gold may be increased and world prices affected by forces beyond the control of the Indian people. It is, therefore, the duty of Government to take time by the forelock and without further loss of time satisfy the unanimous demand of the Indian public in this matter.

43. The next point refers to formation of a Central Reserve Bank. That a suitably-constituted Central Reserve Bank is a necessity does not admit

of doubt or difference of opinion. Without it the credit machinery of the country cannot be properly reorganised. This Central Reserve Bank will have to be at the head of the whole banking system. The bank, although it must work more as a Bankers' Bank than otherwise, should have a few branches in provincial capitals or centres. The provincial branches should be connected with and should act as feeders to the joint stock banks and bigger indigenous bankers. These in turn should be linked with co-operative banks, smaller district shroffs and village mahajans. The banking system so constituted should be made to work like a similar system of waterways, the Central Reserve Bank—the reservoir of national finance—acting as the main source from which finance should flow first to the provincial branches and thence to the joint stock banks and city shroffs and later through the innumerable channels of co-operative banks, smaller shroffs and mahajans ultimately reach every nook and corner of the land. The life-giving finance that will issue from the central source and will be added to from stage to stage by private finance will go coursing along the whole economic system of the country—irrigating, nourishing and developing every form of economic enterprise. The main purpose of the Banking Enquiry Committee, in my Board's judgment, is or should be to link the different parts of the credit organisation so as to secure the largest measure of national economic benefit.

44. It is not the place to go in detail into the entire question of the constitution of the Central Reserve Bank. My Board will, therefore, emphasise merely two points in this connection. Firstly, this bank should not be a shareholders' bank. It may be established entirely on the basis of State finance or its capital may be drawn partly from the State coffers and partly by issue of guaranteed debentures. Secondly, the managing body of this bank must be truly representative of the interests of the Indian people. In the existing circumstances the only acceptable way of doing so will be to provide that a majority of members of this body shall be chosen by the Legislative Assembly though such members need not be drawn from the legislators themselves.

45. In the scheme outlined above, indigenous bankers have been given their due place. The conviction has steadily deepened in the minds of my Board that without the shroff being recognised as a necessary link the credit system cannot be complete. The Board are, therefore, of opinion that the proposed Reserve Bank should give the indigenous bankers the same facilities and concessions as to the joint stock banks. At the same time it is necessary that the restrictions which may be imposed must take into account the peculiar needs of these bankers. For this reason my Board beg to recommend the following in this connection:—

(1) There should be, along with a schedule of joint stock banks, a schedule of shroffs to whom certain recognised financial facilities should be given.

(2) The shroffs who may conform to the standard fixed therefor should be included in the aforesaid schedule.

(3) The account books of the scheduled shroffs may be periodically inspected by examiners appointed by the Central Reserve Bank.

(4) They should be allowed to carry on the business of commission agents along with that of banking.

(5) They should be prohibited from trading on their own account.

46. Until such time as the Central Reserve Bank is established the Imperial Bank will, of course, continue to function as before. For this period my Board have to submit the following suggestions for the consideration of the Committee:—

(1) The policy of opening branches of the Imperial Bank in the mofussil should be discontinued.

(2) Instead in principal centres of trade and agriculture shroffs of substance and credit should be appointed as agents of the Imperial Bank, one in each place. It would be better if more than one combined to form into a firm.

(3) These agents may be required to—

(i) put a certain deposit with the bank as security.

(ii) give a guarantee for a particular volume of business to be done at the place.

(iii) submit to periodical examination of their transactions and accounts by the bank's inspector.

(4) These agents may be prohibited from—

(i) doing any business banking or other with the bank's money.

(ii) keeping their own goods in the bank's godown.

(5) Appointment of these shroffs should be made in the first instance for a period of five years which may from time to time be renewed, though in case of fraud or misconduct their services may be dispensed with on shortest notice.

(6) Godown should be opened by the bank and put in charge of the agents. Godown-keepers may be appointed by the bank.

(7) If the experiment proves to be a success, the mofussil branches of the Imperial Bank must be discontinued.

47. My Board are also of opinion that it will be necessary to pass a Banking Act for giving effect to the various recommendations made in this memorandum. This Act should include provisions prescribing privileges and restrictions applicable to Indian and non-Indian banks and bankers on the lines suggested in the foregoing pages.

48. The last important point to which it is necessary to direct attention relates to the position of insurance companies in India. It is impossible to exaggerate the importance of the part played by insurance companies in the field of economic development of a country. There are numerous ways in which they can make themselves useful to the community at large. By purchasing Government securities, loans of municipal bodies, railway stock and shares of industrial concerns, etc., national insurance companies procure finance for nation-building departments of the State, for improvement of municipal administration, for general industrial development and so on. The huge amount of money that these companies receive in the shape of premia must needs be employed for earning interest. Therefore, if such companies are owned and managed by the nationals of the country where they exist and carry on business, these various benefits will remain in the country and will be reaped by its people. On the other hand if foreign companies are allowed freely to establish themselves in a country controlling a lion's share of the insurance business without any statutory obligation or limitations imposed thereon, the moneys attracted by them will be regarded as so much wealth drained out of the country.

49. Therefore, the necessity of developing and strengthening national insurance companies cannot be denied. Where foreign companies reign supreme it is a well-nigh impossible task to help national concerns to develop and prosper. That is mainly the reason why in spite of the best efforts, Indian insurance companies have not made much head-way. There is another point of view. In the existing conditions the interests of the investing public are not properly safeguarded by law. The public has no means to ascertain the true financial position of a foreign company. In the most of the Western countries foreign insurance companies have to work under many hard restrictions. Under these circumstances it is very desirable that every encouragement and support should be given to Indian insurance companies and also that certain necessary restrictions should be put upon the activities of the non-Indian concerns. My Board have, therefore, to suggest that (i) a non-Indian insurance company should be permitted to commence or carry on business only after it has taken out a license for that purpose, (ii) this license should be granted by a Licensing Board to be formed hereafter on the applicant's conforming to the following among other conditions:—

(a) It must pay an entrance and an annual fee, the scale to be fixed by the Licensing Board.

(b) It must invest a certain reasonable percentage of its income in Indian securities and otherwise in India.

(c) It must make a deposit with the Licensing Board before commencing business.

(d) It must publish and file with the Licensing Board annual balance sheet in regard to its business in India.

No. 56.

Letter from the Secretary, the Northern India Chamber of Commerce, Lahore, No. F./32, dated 10th March 1930.

I am directed to enclose herewith replies of this Chamber to some of the points raised in the questionnaire issued by the Indian Central Banking Enquiry Committee.

I.—INDUSTRIAL BANKS AND CREDIT FACILITIES FOR INDIA'S MAIN INDUSTRIES.

(1) The present facilities only fall short of actual requirements by the amount which borrowers require in excess of their securities. In the opinion of this Chamber the banks give ample facilities, but it is found in practice that borrowers usually require a larger advance than their security warrants.

(2) It is not thought that the financing of trade and business practices with which the Chamber has come into touch and has observed could be improved to any appreciable extent.

(3) The rates of interest on loans and advances vary considerably with the type of loan granted and the security offered.

Provided the security is considered satisfactory no difficulty is experienced on account of lack of credit facilities.

(4) Where banks in India have not financed industries freely, it is because of lack of satisfactory security.

Financing of industries is possible under the present banking system, provided the necessary security is available.

This Chamber is not in favour of trade banks.

The term "Industrial Banl " is not understood.

II.—FINANCING OF FOREIGN TRADE.

(1) The banks at present in existence are meeting all requirements.

The merchants who are unable to obtain all the financial assistance they need are not in possession of satisfactory security.

(2) The various credit instruments in use are too numerous to be detailed here.

Yes, seasonal fluctuations are apparent in the rates charged by banks.

Export bills are readily discounted by the exchange banks.

The exchange rates charged would appear satisfactory.

(3-i) (*a*) Bonded warehouses are already in existence at the various ports.

(*b*) Complaints have been received that the rates charged by port trusts for warehousing are higher than as charged elsewhere.

(3-ii) The interests of traders and the public do not suffer, as there are few defects in the present system.

(3-iii) The banks at present in existence are meeting all requirements.

III.—Regulation of Banking.

(1) The books of any bank should be open to periodical examination by accountants appointed by Government. The cost of such examination might be borne by the banks.

(3) In the opinion of this Chamber, the use of the word "bank" should be restricted under enactment of the Legislature.

(4) No.

(5) Foreign banks should be under the same restrictions as are Indian banks.

(6) This Chamber considers that in some respects the present position is not satisfactory. A great deal of harm has been, and is being done to banking in India by the flotation of "mushroom" banks, usually promoted by men whose financial status is not of the soundest. There is also the question to be considered of banks floated with the best of intentions, but little experience.

To effectively deal with the 'mushroom' banks, without in any way hampering or retarding the progress of other banks, is a question which should receive close attention by the Banking Enquiry Committee. This Chamber has considered the matter in its various aspects for some time past, and it is considered that one of the first steps towards a solution of the problem would be to ensure, by legislation, that the promoters of a bank, and the qualifications of subsequent directors, be the holding of shares of the paid-up value of, say, Rs. 20,000 to Rs. 50,000 or more. Under present circumstances it is no uncommon matter for promoters to hold not more than 50 shares of the face value of Rs. 50 each, on which perhaps only 500 or so has been paid up, which has conveniently been spent in "preliminary expenses". In one case at least the total contribution of the promoters was, significantly, the equivalent of their travelling expenses. It is further suggested that the promoters' qualifying investment should be held by Government in trust, in Government securities, and that all preliminary expenses should be paid by the promoters in the first instance, to be recovered by them when the bank opens for business as a charge against the funds of the bank.

With reference to authorised and subscribed capital, the average person in India is seldom able to distinguish the difference that exists between the two terms, and the Chamber is of opinion that legislation should be enacted to prohibit a bank being floated with an authorised capital of more than, say, ten times the amount of capital that has to be subscribed by the promoters before the bank starts work.

It would appear that many new banks of doubtful pretensions deliberately place their authorised capital at a high figure to mislead the public. During the last year for which statistics are available, of the 10 banks in British India which went into liquidation with a total authorised capital of Rs. 79,00,000, 3 banks with a total authorised capital of Rs. 40,00,000 had no subscribed capital.

(7) The Chamber has no remarks to make, as so much depends on the kind of assets in each particular case.

(8) Injudicious management and dishonest practices.

(9) If the position of a bank warranted an amalgamation or reconstruction, it should be done, and it is suggested that the Imperial Bank should assist.

(11) This Chamber is not in favour of making any distinction.

(12) It is not considered advisable that the stability of banks should be further protected by legislation. The present law would appear to be sufficient safeguard against unjust attacks, and the affairs of banks should receive as much publicity as possible.

(13) Banks pay the same taxes as other companies, and do not enjoy any special concession.

V.—GENERAL BANKING ORGANIZATION AND MONEY MARKET.

(1) This Chamber has no suggestion to offer.

(9) This suggestion is supported. One of the causes is that India is consuming more of her own produce than was formerly the case.

(11) The relationship that exists between banks and the various classes of brokers is a very friendly one.

(13) Banks have found the maintenance of their own godowns very successful in meeting the trade requirements of their constituents.

(15) The Imperial Bank has been very serviceable to the main industries of India, but it has not done anything substantial which other banks would not have done or could do.

(18) In the opinion of this Chamber, joint stock banks in India should be afforded similar facilities and concessions as are granted to the Imperial Bank.

No. 57.

Letter from the Honorary Secretary, the Southern India Chamber of Commerce, Madras, No. G.-422, dated the 17th May 1930.

I am directed to submit herewith the statement of written evidence of my Committee in answer to the questionnaire issued by you.

SECTION I.

1. My Committee leave it to the individual members to submit statements of the detailed financial requirements of the industries with which they are concerned. But they have no hesitation in saying that industrial finance is deficient in a high degree at present. There are no industrial banks as such in this Presidency; commercial banks and private bankers and money-lenders are as a rule reluctant to invest in any industry if they can help it even if they have confidence in the success of the industry; Government loans under the State Aid to Industries Act are small and the conditions for grant are onerous and cumbersome; and what finance is available for industries is the result of herculean efforts of company promoters. As a general rule the necessary working capital is lacking and the shareholders are anxious for immediate results. At this stage of India's development the funds of industrial banks should be available to support the industries. At present certain industries depend for such finance upon the short term credit of the commercial banks. Commercial banks are, as a rule, unwilling to lend to industries. The Indian joint stock banks have their moneys fully employed in other directions. The exchange banks would not turn to the indigenous industries at all; the Imperial Bank lends to European industrial concerns more freely but several of the Indian concerns which took the Imperial Bank's assistance have had bitter experience.

2. *Imports.*—The following improvements in respect of financing imports can be suggested :—

(*a*) The Custom House and Port Trust should accept in payment of assessment or deposit the cheques issued on approved banks and bankers. At present only cheques on members of the clearing house are accepted. This is a great inconvenience as several substantial banks remain outside the clearing house.

(*b*) Payment of railway freight by cheque should be facilitated.

(*c*) The up-country merchants mostly take goods on open accounts and rarely on hundis. Either the open accounts should be acceptable to banks as collateral or they should be converted into hundis for discounting.

(*d*) Either a branch of a joint stock bank or a co-operative credit society or an approved indigenous banker should be available in all towns to collect hundis attached to railway receipts which are to be handed on payment or acceptance and which represent actual commercial transactions.

(*e*) Public warehouses should be available in the ports from which imported goods can be released piece-meal on payment to the bank concerned. Too much of handling of goods by intermediate parties should be avoided.

Export—

(1) Warehouses to be established in all important towns where goods can await a favourable market.

(2) Approved bankers to guarantee or accept hundis on goods in owners' godowns or public warehouses.

(3) Local markets to be organised in more centres with reference to grading, standardised charges, dealings in future, etc.

Production—

(1) Co-operative finance and activities of non-credit societies are more abundantly required in order to mobilise and strengthen cottage industries. There should be an all-India federal organisation and depots in different centres for such non-credit societies so that their raw materials and manufactured articles can be handled more economically.

(2) Industrial banks are badly required. As their experience in the past has not been encouraging there ought to be sufficient encouragement from Government in order to conjure them back to life; Government guarantee of interest and Government loans and subscription for shares are essential in the earlier stages. The reserve funds of foreign insurance companies and foreign bankers, Government provident funds, employees' gratuity funds of local bodies and quasi-Government institutions, etc., should be made available for the industries through the industrial banks. Such banks should either have branches all over the country or have systematic dealings with commercial banks so that the facility of supply of advances on raw materials, etc., up to the stage of the finished article can be fully utilised with perfect security. The agricultural or land mortgage banks and industrial banks may also open current accounts whose funds can be employed in agricultural industries in which quick turnover is a definite feature.

3. The Bank Rate in India is not a barometer of the monetary conditions of the market at all times because the different classes of banking institutions in the country are not yet made parts of a general monetary organisation with the Imperial Bank or any other Central Banking institution at its head. Now there is no systematic flow of funds from the Imperial Bank to the joint stock banks or *vice versa* according to seasonal conditions. The Bank Rate can only affect the market to the extent to which the public depend on the Imperial Bank funds directly or indirectly. There is, therefore, a great variation in rates from one institution to another. The rate of interest prevailing in the remotest parts of the country should have a definite relationship to the Bank Rate adopted for the time being. The Reserve Bank or other Central Institution should have control of loanable funds in the country to that extent in order to create a healthy market for loanable capital.

The interest rates in India are invariably as high as would have caused widespread protest and sustained agitation in England or United States. Still more and more money is required for investment in India and, as it is, any compact section of the banking world, say the Association of Exchange Banks, can easily screw up the rate as they command a good portion of loanable funds. They do as a matter of fact use such opportunities fully for securing the advantage of difference in rates between England and India. The rates are sometimes

uneconomic for mercantile transactions, and more so for industrial purpose, and in the result the industries in India are unable to attract sufficient capital unless there is an assured prospect of high and immediate return.

The remedy lies in the first place in the efficient co-ordination of banking institutions under the ægis of a State Central Bank, in the multiplication of branches of joint stock banks if necessary with Government subsidy or patronage in the beginning, in the drawing of idle capital into the vaults of banks, and in imposing statutory restriction on foreign insurance companies and foreign banks working in the country.

4. Long term deposits required for industries are lacking in the present banks; industrial enterprises are in their infancy and have to fight their way against vested interests. Government is not actively sympathetic towards the promotion of indigenous industries; the public are uneducated in the technique of investments and industrial life is only just commencing; banks in India have general apathy towards landed properties and particularly towards industrial assets which have a relative value in going concerns; the industries can exercise confidence only if tariff is sufficiently high to protect them. Trade banks for particular sections of trade would be too susceptible to panic and to seasonal slackness and would not be as paying as other banks. Neither is there any great advantage to be derived from them.

An industrial bank in each province federated to an all-India institution with a substantial share of State capital, with the advantages of Government guarantee of interest on its debentures and preference shares, and working freely for industrial development through associations of particular industries and provincial boards of industries may be said to be advisable as broad features to be kept in mind for starting an Industrial Bank for India. For the sake of security to its investments, the supervision of industries by one of its officers will be unobjectionable.

SECTION II.

Foreign trade is well financed by the exchange banks, but in certain sections of export their funds do not reach inland beyond the port of shipment. In respect of imports their financial help stops with the payment of the foreign drafts at the port. If Indian exporters are to be encouraged Indian joint stock banks should be helped to run exchange business by means of restrictions on the operations of the present exchange banks and by allowing the Imperial Bank, when the Reserve Bank comes to be created, to open exchange business. The exchange banks are at present in a position to discriminate not only between exporter and exporter but between article and article and between destination and destination.

In order to encourage the use of bills the stamp duty on the usance bills should be abolished in the case of three months bills, and reduced by one-half in other cases; the condition that a vernacular signature should be attested before a magistrate and other such restrictions are handicaps to the popularity of bills.

3 (*i*). (*a*) Bonded warehouses would certainly be a great relief to the commercial public as well as to the banks. Warehouses may be conducted under license by railway companies, co-operative societies, banks and approved bankers, joint stock companies and private persons; where the public or private bodies are not forthcoming to build warehouses Government would have to take their place. The control and issue of licenses for warehouses may

be vested in the Registrar of joint stock companies. The licensees of warehouses should not do any other business or follow any other profession ; they should make adequate deposit with the Reserve Bank and submit periodical returns to the Reserve Bank or Banking Association or other authorities, whoever may be exercising control over banks in the country. The rent, insurance and other charges of warehousing should be fixed by public regulation. The construction of warehouses should suit the nature of goods requiring to be warehoused in each locality.

(b) Port trust warehousing is primarily for export goods only and accommodation at all the ports is limited. Further, storage at them is entirely at the owners' risk. There appears to be no system of raising money on port trust warehouse receipts. Even in an important commercial port like Madras this facility is not available. It is a serious handicap to trade and commerce. The conditions of warehousing should be made such as can be relied on by the banks for their advances on the goods.

SECTION III.

1. The audit and examination of bank accounts should be done by examiners appointed for the purpose. The financial position of the banks, the proportion of fluid resources, the reasonableness of the reserves, etc., should be brought under their purview. They may be appointed by the governing body of the Reserve Bank or by an Association of Bankers in the country. In order to prevent banking crashes it is necessary that the banks should be required to insure their own stability with the Banks Association. There should be disciplinary control over all banking institutions, and even private firms and individuals doing regular banking business should be required to take out license and their accounts should also be subjected to periodical examination and publication.

These examiners should have the qualifications of public auditors holding unrestricted certificates and should besides have qualification of University rank in mercantile law, economics, public finance, and other commercial subjects. Their cost should be met by Government in the Department of the Registrar of Joint Stock Companies.

2. Some general restrictions as to examination and publication of accounts, proportions of reserve and paid-up capital, etc., prohibition of other business, and general control by the Banking Association or Institute would be sufficient ; such detailed restrictions as on the nature of business to be accepted would be vexatious and may operate as positive discouragement to banking business in the country.

3. The word 'bank' should be restricted to joint stock concerns and the word 'banker' to approved bankers.

The same control may be exercised on all banking business alike except in the case of foreign concerns working in India in whose case special restrictions are necessary. These latter banks should besides the restrictions imposed on indigenous concerns, be restricted as to investment of their funds, limits of foreign exchange business, publication of accounts of business in India, admission to the clearing house and so on. The Banking Institute or Association may be invested with the authority to enforce such provisions.

4. The sphere of operations of the present exchange banks of foreign origin should be defined and limited. They should register their company in India, and provide local boards of directors ; 50 per cent. of members of the

Board should be Indians and 50 per cent. of the shares should be in Indian hands.

5. Foreign banks should also take out licenses. The Banking Association or Institute should issue, renew or cancel such licenses.

6. It would be best if banks were brought under a separate legislation other than the Indian Companies Act. The authorised capital and subscribed capital, and the subscribed and paid-up capital should have some definite relationship. A given proportion of the annual net profits should be credited to the general reserve. The borrowings of the bank likewise should have a definite relationship to the paid-up capital. A reasonable percentage should also be fixed for fluid resources. The balance sheets should show the advances in detail.

7. It should be the endeavour of Government and the public that liquidations should be avoided and amalgamations facilitated in their place. Assistance similar to that given to the Alliance Bank would have saved many an institution in the past and protected the interests of thousands of shareholders and creditors by preventing avoidable depreciation of the assets. In a particular instance the assets even exceeded the liabilities although there was no help for it to save itself from the consequences of an unexpected run.

When weakness is suspected in a bank's condition and a proposal for amalgamation is on hand or is likely to be taken up, a kind of temporary moratorium must be permitted so that it is not open to depositors to withdraw the money straightaway and accelerate the failure. The declaration of a moratorium even for the purpose of saving a bank from temporary panic is bound to have salutary effect as was evidenced by the action of the Government of Japan at the time of the Suzuki failure.

8. The chief causes of failure in the past were :—

(1) Conduct of trade besides banking business.

(2) Too many eggs in one basket.

(3) Unrestricted loans to directors and their concerns.

(4) Loose audit and loose control of banks under the Indian Companies Act.

(5) Speculators and scare-mongers.

Stricter control by Reserve Bank or Banker's Institute or Association, stricter law and audit, and facility for help from Reserve Bank and for negotiation for amalgamation through the Institute or Association would improve the position.

Section IV.

1. A system of apprenticeship in all joint stock banks to students of approved institutions is advisable. Now only untrained men can be recruited. Foreign banks may be enjoined by statute to take Indian apprentices regularly.

Section V.

2. Indigenous banks should be licensed to act as acceptors or guarantors to the other banks ; they will work as their agents under prescribed conditions for the purpose of remittance, deposits, collection, advances, etc.

4. The Bank Rate cannot be effective in India unless the money market is so consolidated that money from the Reserve Bank percolates through various institutions and reaches to the indigenous banks in the remotest places.

No. 58.

Letter from the Secretary, the Ahmedabad Millowners' Association, Ahmedabad, No. 298-30, dated the 4th February 1930.

With reference to the questionnaire of your Committee I have the honour to forward the reply of my Committee as under :—

My Committee is particularly interested in the Indian textile industry and as such any observations that are made herein may be taken as related to that.

I.

Q. 1.—In a cotton mill company there is a large requirement both for block and working capital. At present this is financed mostly by the managing agents of the company and by public deposits. The experience has been very satisfactory so far. The financing by deposits is possible only on the credit of the agents. Hence if the agents are not very substantial parties they are unable to obtain deposits. No banks give long term loans or even any types of loans to such companies which though quite good have a capital debt and whose agents are supposed not to be very substantial parties. Ahmedabad perhaps is the only place in which the industry runs on finances received from the public and managing agents without very little or no assistance from the banks.

In the opinion of my Committee banks ought to come forward in taking up at least one-third of the block-account in debentures and to give freely on liquid assets with about 25 per cent. margin. Such advances should neither be dependent on the standing of the agents' firm nor on the guarantee of the agents. My Committee feels that the banks in our province have so far failed to render any assistance whatsoever to the industry. On the other hand as far as Ahmedabad is concerned they have drained away large amounts obtained locally to the detriment of the financing of the local industry and trade.

In certain cases where the mills are short of money they are obliged to rely on local shroffs than on the banks for a part of the working capital. But such loans obtained from shroffs are not adequate or substantial for this purpose.

Q. 2.—The raw material, that is, cotton, is being purchased by mills through cotton buying agents who temporarily finance it till the bales reach Ahmedabad and payments are made to them against railway receipts for such cotton. The manufactured goods, *i.e.*, yarn and piece-goods are generally financed by the piece-goods merchants who send the produce of Ahmedabad to the various centres of India on credit and realise their dues in course of one to three months. The trade would obtain much greater facilities if the banks were to come forward to assist the industry by accepting 30 to 90 days drafts as is being done by foreign banks who finance the import of foreign goods.

In regard to stores and coal payments are made by the mills after two to four weeks after the delivery of the goods. The banks can assist the merchants by giving them advances in such transactions.

It may safely be said that very little cotton is sold in Ahmedabad as ready cotton. If better banking facilities are made available to upcountry

merchants to enable them to send their cotton to Ahmedabad or sale, Ahmedabad would become a big centre for ready cotton which would benefit the growers, petty merchants, up-country traders and the industry alike. Mills which do not buy cotton during the season are very often forced to buy from Bombay with the result that unnecessary loss in railway freight, storing and handling charges is incurred.

Local mills obtain deposits from the public at the rates varying from 5 to 6 per cent. In few cases where loans or advances are being granted or made by the banks the rate of interest varies from 6¼ to 7½ per cent. However, invariably such advances from banks are made only in cases where the agents are substantial parties and they guarantee repayment. The commission agents for cotton charge 6 per cent. interest for temporary finance undertaken by them.

Due to lack of facilities mentioned above the expansion of the local industry has been restricted and other industries have not been started in Ahmedabad.

The existing facilities to the public including banks and bankers for inter-remittance are very inadequate. Charges by way of exchange are very heavy and these can only be remedied by the expansion of banking and inter-bank competition. A majority of those who consign various products upcountry do not receive payment on a D/P draft. Moreover, except to very good parties payments are not made against drafts but only on the advice of the draft having been retired by the party at the office of the bank through which the draft was forwarded.

Licensed warehouses will assist the trade greatly. It will afford good facilities to the petty and large dealers to hypothecate their goods with the banks. Arrangements for such facilities could well be made by Government or private agencies. The latter could not possibly come forward unless Government takes the initiative and guarantees certain interest.

Q. 4.—There should be industrial banks under the control of and with the aid of the State with wide facilities to borrow moneys from Government or from a State bank. Under the present conditions industrial banks will not succeed without State aid.

II.

Q. 2.—The Indian foreign trade—both import and export—is entirely dependent on foreign banks, while Japan, America, Holland, France have branches of their own Banks to facilitate their imports and exports. As long as India does not get similar facilities, Indian foreign trade is not likely to progress in normal growth and expansion. As the exchange banks have practically the monopoly of foreign trade they charge arbitrary rates of interest and exchange charges for negotiating drafts to and from India. When the discount rates of interest of the Bank of England may be very low the rate of interest charged by exchange banks on drafts continues to be high and to be usually 7 per cent.

III.

Q. 5.—My Committee is in favour of licensing the banks and the authority for licensing should be with the proposed Reserve Bank of India.

Q. 12.—My Committee is in favour of certain measures being taken to prevent banks which are stable against unjust attacks made on them. This

can be prevented by taking effective steps to stop the abuse of his rights by a shareholder, which is not possible under the existing Indian Companies' Act.

IV

Q. 4.—Facilities for higher training outside India to bank probationers and bank assistants in India will certainly be beneficial. But until the superior posts continue to be a monopoly of Europeans, Indians, howsoever trained and qualified they may be, are not likely to get opportunities which they ought to have. However, with a view to make a beginning in this direction, selected Indians in the service of the proposed Reserve Bank of India and the Imperial Bank of India (so long as it continues to receive assistance from Government) should send a few of its Indian assistants abroad for training and these should be given important and responsible positions on their return.

Q. 8.—The prospects in India for Indian boys qualified and trained in banking in India and abroad are very poor at present.

V.

Q. 7a.—The cost of management can be reduced by Indianisation.

7b. The rates of interest on advances can be reduced by a discriminate and steady policy of Government borrowing both in India and in London.

7d. This can be done by starting the proposed Reserve Bank of India.

Q 15.—The Imperial Bank of India has been of little or no use in so far as the financing of the local industry is concerned. With its present constitution and outlook it is difficult to expect more from it.

My Committee is strongly of opinion that the proposed Reserve Bank of India should be brought into existence as soon as possible. The State should keep its balances exclusively with the Bank and none of the resources of the Bank should be so diverted (either in India or abroad) as to assist imports into India at the cost of Indian commerce, industry, trade and agriculture The Imperial Bank of India should continue to receive some assistance from Government in order to enble it to continue its work and increase the net-work of branches in the country.

No. 59.

Letter from the Secretary, the Amritsar Piece-Goods Association, Amritsar, dated the 3rd April 1930.

In response to the questionnaire issued by your Committee we take great pleasure in submitting our statement. The questionnaire is varied in scope and encompasses in its purview the multifarious activities of banking in its various phases. We will not attempt to answer the various issues raised by it, but will try to deal with some points which, in our humble opinion, appear to us to be vital both to the banking and trade interests of the country, in general.

We will first take up the question of foreign piece-goods and how it is financed.

Immediately the goods are manufactured, packed and shipped, the manufacturers or shippers negotiate their bills of lading and relative documents through their bankers who discount or advance them a major portion of the value of goods covered by the documents and receive those documents for realisation. The importers, who have generally arrangements with some of the local exchange banks for loans, retire the same by depositing with their bankers from 35 to 40 per cent. (inclusive of the custom duty) of the value of goods. The goods are cleared and dispatched from the port through the agency of the financing bankers at the expense and risk of the importing firm.

The drafts are generally drawn by the shippers subject to a rebate of 6 per cent. while the Bank Rate of interest is about 7 per cent. *plus* one rupee per package per month godown rent. While the goods are lying stored in the banks, they are partly financed by the importing firms and to the extent of 60 or 70 per cent. by the banks. The dealers of the importers receive the delivery of the goods against full payment from the banks. From thence the goods are financed by the whole-sale merchants. The mofussil shopkeepers then buy their requirements through the Artias (commission agents) who finance the mofussil trade along with the local shopkeepers upto the last home,—the consumer of the goods. The rate of interest charged by the Artias is 6 per cent.

The Bank Rate of interest and godown charges on an average package of Rs. 400 will come to about 12 per cent. per annum which is a prohibitory rate. Instances may not be rare where the amounts advanced as *Margin* in the Loan Accounts have become "*Loan*" in the bazaar parlance, *i.e.*, they have been wholly swallowed up by the heavy bank charges.

The Chartered, the National and the Allahabad Banks have formed themselves into a trio of Associated Banks and their relations with their loan obligants are governed by set rules and regulations to which they all mutually agree. This may account for difference in rates of exchange and other facilities at ports and those offered here. They do not finance Indian piece-goods. The Imperial Bank, however, advances on Indian piece-goods under certain restrictions such as the negotiation of drafts through their own bank. This is practically of no great help to the industry or trade in general.

The banks do not accept in payment, at par, demand drafts in sterling on London of any other bank, against their bills receivable, although exchange may have been booked expressly for the same before-hand. The

banks, although holding goods in account of their Indian constituents, consider themselves more the agents of foreign shippers rather than of the importers who are their clients.

It will not be out of place to mention here that the banks, by reason of their financing capacity, have captured the market. They enjoy an ascendancy over the importers and dealers and their control of the market has resulted greatly to the detriment of Indian industry and has been one of the factors responsible for the depletion of capital and the present severe economic depression in the country. The banking accommodation induces the importers, dealers and others to order their goods pell mell in quantities that far exceed the probable demands of the market.

The market is thus very heavily flooded with goods. The purchasing power of the ryot has greatly decreased. These factors have worked a great economic havoc in the market and a depletion of capital therein.

Considering it to be within the purview of your Enquiry Committee to fathom its causes, we may add this is due to the fixation of exchange at 1/6 which greatly militates against Indian export trade. London being the Money Market Rs. 13/4 for the sterling cannot permit of exports. The fall in Indian export trade is mainly responsible for the dormancy, stagnancy and deterioration of the Indian markets and the depletion of Indian capital which is greatly responsible for the throes of the severe economic depression through which the country is passing at present.

It may be suggested that to meet the point of heavy bank charges, the rate of loans should not be more than 6 per cent. and the system of bonded warehouses be introduced so as to relieve the banks from acting as godown keepers. A separate institution of bonded warehouse-men will create a healthy competition and be conducive to a better atmosphere. The godown rent should not be more than one pice per day per package. This will not burden the dealers so much.

We will next refer to the co-operative banks. The prevailing impression among the average depositors being that the co-operative banks are not only under the control of the Government, but that Government is responsible for their working and will be responsible for the safety of their deposits is one of the factors, responsible for their present working capital of 16·05 lakhs of rupees. This money was formerly held in deposit by the city shroffs or sahukars. Another factor, responsible for this diversion of capital into the co-operative banks are the fishing enquiries of the income-tax authorities to which the local shroffs and sahukars are so much open. This money is now employed for advancement of loans to the co-operative societies or agriculturists, whereas, a large portion of it was formerly invested in the development of trade both in the urban and rural areas.

While the co-operative movement has not been of much value to the agriculturists and has defeated its object by increasing the indebtedness of the peasantry (who now borrow both from the village sahukars and these banks, while formerly they borrowed from the sahukars only), it has materially affected the market very adversely by diverting from it a large amount of capital available to the dealers at much easier terms and more conveniently than the conditions upon which it has flowed into the market through the channel of the exchange banks.

Out of a total of 19,462 societies the number of village credit societies is 15,468. Their classification is tabulated as under in paragraph 20 of the Report on the working of the Co-operative Societies in the Punjab for the year 1929:—

	A	B	C	D	Unclassed.
1928 .	253	2,216	8,879	671	2,265
1929 .	273	2,253	10,187	799	1,946

Inspite of a large increase in the numerical strength of these societies the ratio of A and B class societies has gone down from 21 per cent. to 18·6 per cent. "Unfortunately the number and percentage of D class societies have gone up from 671 and 4·7 per cent. to 799 and 5·2 per cent." The fact is "that an old society always tends to deteriorate........." and the tendency appears to be on the increase in D class societies which is regrettable. This may be accounted for by fall in exports, the higher standard of living as a necessary corollary of the advancement of civilization and the general depression all over the country.

We may now refer to the co-operative artizans' societies. The Report (cited above) sums up their working and progress as below:—

	1928.	1929.
No. of societies . .	289	299
Working Capital . .	Rs. 6 lakhs	6·7 lakhs.
Value of raw material advanced to members .	Rs. 2·94 lakhs	1·35 lakhs.
Value of members' goods sold	2·89 lakhs	1·35 lakhs.

"In comparing these figures, it should be borne in mind that those for 1928 relate to a period of 16 months".

The statement of the operations of the Co-operative Industrial Bank, Amritsar, and the various unions at pages xxvi-xxvii shows a total advancement of loans made during the year to be Rs. 1,72,157.

The repayments or receipts from these loans during the same period amount to Rs. 1,53,542.

Due to the difficulties experienced in the disposal of the products of the members, a depôt was opened at Lahore, but "experience has not been too successful so far, and the position is being examined". The Report further states that "the greater portion of any achievements must be put down to the Government supervising staff who have a very uphill task".

The immensity of so-called "achievement" to the credit of the overnment supervising staff of this branch of the department will be readily realised when it is taken into consideration that the above volume of annual turnover has been accomplished with a working capital of 6·7 lakhs of rupees at an annual expenditure of about half a lakh of rupees met out of the Treasury of the Government Exchequer. The cost of management of the various institutions and societies borne by themselves is extra.

In this branch of co-operation also the indebtedness of the members has increased and the members in general do not appear to be in any wise better off than non-members.

It may be stated that with a working capital 6·7 lakhs and a big organization of the size of the Government supervising staff, the public has a right to expect a turnover of not less than two million rupees a year.

The small or cottage industries both carried on by the members of the societies and non-members are to a large extent financed by the sahukars. It is through the sahukars that the members to a large extent and non-members buy their raw materials and dispose of their products. The part played by the department in the development of the industry or help rendered to its co-operators is negligible.

It will not be out of place, therefore, to submit here that considered, both from the national and economic points of view, while the co-operative movement has been of little service to the agriculturists or artizans, it has by diverting capital from the trade, undermined individual credit. Under these circumstances the extension of the co-operative movement is a menace to the well-being of trade and we would urge upon Government to institute an enquiry into the working of the movement and to report whether its continuance is desirable.

We will then suggest that the quickest and most desirable and economic way of developing banking and restoring general public confidence is to associate the indigenous bankers or sahukars more closely with the Imperial Bank or the State Bank as the case may be. This will go a great way to improving the present depression in trade. The Imperial Bank branches should not be opened unless they help the local shroffs and merchants. Branches of the Imperial Bank or other banks that are opened, generally result in money being drawn out from that place and made available to the foreign exporters by the Imperial and exchange banks and to the agriculturists by the co-operative banks. It should be provided that so far as possible, the money collected at the branches should be invested in the locality concerned.

The second important point is the introduction of gold standard and currency which the country badly needs at present. Regarding currency notes, we are of opinion that Government may issue notes of the denominations of Rs. 10 and 5 only as they are mostly in use while the issue of notes of higher values should be entrusted to a State Bank or Central Reserve Bank having no share capital but owned entirely by the State, subject to sufficient gold reserve and securities being held by it. The Imperial Bank, as constituted at present, should not be given any charter to issue notes as it has declared itself not to be a Government or State Bank and does not submit to Government rules or regulations both in the matter of its services and public dealings. We urge upon the formation of a State Bank because we feel that a bank being more directly connected with trade, industry and commerce of the country will be better able to ascertain the exact monetary needs of the public and will take measures to meet them. It will also come forward to help other banks and industry in times of stress and financial crisis.

While urging upon the necessity of gold standard and currency we may also state that it is sometimes alleged that India hoards large quantities of gold. While we do not possess any statistics regarding this, we nevertheless think that Indian homes do not hoard much gold. If the gold standard and currency is established, gold will not be hoarded but the public will invest the same in banks and other securities as it will create a confidence that gold will be available at any time it is required.

In the third place we may suggest Government to develop among the general public a habit of thrift by popularising indigenous insurance and placing restrictions on the operations of foreign insurance companies who look to their own gains and not to that of the country by taking vast amounts of premia to the countries of their origin. Insurance habit is

generally a result of education, culture and other influences of civilisation. It cannot be found here to any appreciable degree as the people are mostly illiterate. With the development of indigenous insurance business, the pillars of the prosperity of a country, *i.e.*, trade, industry and banking will flourish.

Other causes which have drawn out capital from the trade and industry of the country may also be stated. These are: the popularity of Government loans, the sale of Post Office Cash Certificates and the keeping of Gold and Paper Currency Reserves in England.

Government loans are generally floated for large sums of money at very favourable rates of interest and are usually free of income-tax. The public readily take advantage of investing all available funds in these loans as they offer absolute security and save the investors from much income-tax botheration. The investors also prefer to go in for these loans as they can be converted into cash and/or are accepted as gilt-edged securities by the banks who readily advance against them at low rates.

To the small investor nothing offers greater security and convenience than Post Office Cash Certificates. As they give adequate interest and can be readily encashed, they are gaining popularity.

The third important factor is the keeping of huge sums of money in Gold and Paper Currency Reserves in England. These are made available to English industry and trade at very low rates of interest, while the Government of India raises loans both in London and India at much higher rates. In this connection, it is suggested that these Gold Reserves should be kept in India in the State or Central Reserve Bank (as the case may be) and made available for the development of Indian trade and industry.

We further draw your attention to the operations of the foreign exchange banks through which the entire bulk of Indian trade has fallen into the hands of non-Indian agencies. In the interest of India, its indigenous banking ought to be developed to the fullest possible extent so as to enable it to control its own import and export trade. We are not averse to the employment of foreign capital in the country but what we consider desirable, is that its banking should be improved so as to make its resources commensurate with the needs of its trade and industry.

To achieve this end, Government ought to impose restrictions upon the working of all foreign insurance and banking companies, such as the registration of their capital in Indian currency here for their Indian branches. Their working should be placed under the management of a majority of Indians in their directorate and as shareholders.

The controlling authority should be a Central Board of banking representatives of the trade, industry and banking interests of the country. It should have a majority of Indians as members and a non-official Indian President. This Board should be competent to issue, renew and cancel licenses to do banking business in India.

The term "bank" should be restricted to the joint stock 'banks' only.

All banking institutions whether Indian or foreign should be required to obtain licenses for banking from the Board. This may militate against the working of foreign banks here, but this will prevent further exploitation of Indian agriculturist and trade, which are now, virtually controlled by foreign agencies.

At present there are no facilities afforded either by the Imperial Bank or others to train young men in banking. The Imperial Bank does not accept Indian young men even with high academical qualifications as probationers. As there cannot be any other way of teaching thorough banking than by imparting instruction through practical experience, it is desirable that the Imperial Bank and other banks should entertain suitable young men particularly from the mercantile community and train them in banking.

Qualified young men should be registered as members of the Indian Institute of Bankers and in higher services such members should receive preference along with those trained in India and holding degrees of Indian Universities.

In the Punjab the staff of the co-operative banks is recruited more on communal lines than on the qualifications and merits of the candidates.

In fine, we cannot refrain from expressing our firm opinion that a solution of the present severe economic depression, the ruin of indigenous industry and the collapse, deterioration and demoralization of the trade depends upon the findings and the suggestions of remedies by your Committee.

We, therefore, strongly urge upon you the necessity of a favourable consideration of the facts laid before you and basing your recommendations on the suggestions offered.

No. 60.

Letter from the Secretary, The Millowners' Association, Bombay, No. 1053/ 63 of 1930, dated the 19th May 1930.

I am directed by the Committee of the Association to forward herewith a statement of their views in regard to section I of the questionnaire issued by the Indian Central Banking Enquiry Committee.

The question of the necessity for a closer correlation between Indian banking and Indian industries was never brought to the fore until the Indian Industrial Commission deliberated on lack of credit facilities and suggested the adoption of certain measures calculated to remedy the deficiency. At page 178 of their Report, they say that, speaking generally, there is a complaint that the existing banking system is too inelastic and is insufficient to meet the needs of the country, and that, in respect of industries, development is greatly retarded because the banks refuse to advance money for lengthy periods on the security of buildings and plant. The inelasticity of the banking system referred to above arose principally from the restrictions placed by Statute, as in the case of the three Government Presidency Banks, against the giving of loans to industrial companies for capital expenditure. Though other banks are not under similar disabilities, conservatism and lack of initiative in the past may, perhaps, have been responsible for their timidity to embark on the under-writing of industrial capital or lending money on the security of industrial shares to any great extent. It is natural that, though they may be willing and ready to help industries, the comparatively graver hazards of industrial, as opposed to commercial banking, have acted as a brake on their ability to aid industrial undertakings.

This remains substantially true even to-day.

This may have been justified in the early days of banking in this country when the need for the establishment of confidence among depositors was very much greater than it is now, and when the stage of development reached by industrial undertakings may not have been such as to warrant a departure from the orthodox methods of banking business, pure and simple. But looking to the position of the cotton and jute industries, these conditions cannot be said to obtain any longer. The confidence engendered by their successful management over a long period of years has encouraged the public at large to come forward and invest in these industries to an extent which furnishes an unmistakable indication that were banks to seek to remedy the limitations imposed by their constitution, they could do much, by their initiative and enterprise in underwriting industrial capital or handling debenture issues, to advance the interests and strengthen the position of various industrial concerns which deserve such help.

The same lack of initiative has marked English banking even in the post-War period. Though the chairmen of the five big banks in England in their recent annual speeches repudiated the suggestion that the banks had not granted sufficient facilities to industry, they were at some pains to point out that it was not the function of banks to find the permanent funds required for capital expenditure, and that the question of financial re-organization of particular industries was outside the province of the banks. This may be true of joint stock banks which cannot be expected to finance long term business

with the short term deposits on which they mostly rely for their profits. But, as deposit banks, any form of industrial banking would not necessarily involve their tying up these deposits in industrial investments for an indefinitely long period. What is not generally realised is that German banks have of recent years been developing very much on the lines of the English deposit banks without ceasing, however, to play a leading part in industrial organization and issue business. There is no doubt that the German system has proved its value during the difficult period of re-organization through which Germany has been, and is still passing, and its recovery from the catastrophic depression of 1925-26 would have been impossible but for the close co-operation between banks and industries. The regrouping and rationalization of industrial units in many important industries have been undoubtedly due to banking initiative in Germany.

The cotton textile industry in the Western Presidency, from its earliest beginnings, was founded and developed by individuals who raised the initial paid-up capital themselves, which was not even always sufficient to pay for the whole of the block account, but never made any provision for the working capital required. Their own credit, backed by the consciousness that the industry was laid on sound foundations enabled them to attract all the working capital they needed by fixed yearly deposits from the public. The rate of interest allowed to the public on their deposits varies from 4½ per cent. to about 6½ per cent., being to a great extent, conditioned by the standing of the company and the stability of the firm of managing agents who have its direction.

Generally, banks have withheld from advancing money on block even though it might be unencumbered. This is a handicap which seriously hampers the growth of trade, and places a check on the possible realisation of profits from cheap buying of raw materials in a falling market. So long as the industry continued to prosper, no difficulty was experienced in raising all the working capital required, but as soon as trade depression set in and the mills were faced with rising stocks and diminishing sales, public confidence, which had proved so reliable an asset was lost, and a gradual withdrawal of deposits came to be made.

The high rates at which Government have recently been borrowing money or long-dated Treasury bills have seriously curtailed the mills' ability to attract deposits. Government have competed with bank deposits and banks have had either to refuse to advance moneys to mill companies or to do so at enhanced rates of interest.

The present system is thus in need of readjustment. It entails the necessity for mills to borrow money for working capital from banks on the security of stocks of cotton and cloth, both manufactured and in process, or by the deposit of gilt-edged securities. These loans and cash credits are made for a period of 12 months with liberty to renew the loan thereafter. Where money is advanced on stocks, they are stored in mill godowns and returns thereof are furnished weekly or monthly by mills to the banks. The usual margin allowed by banks is 20 per cent. against stocks in mill godowns and 40 per cent. against stocks in process. The drawback of high margins demanded by banks on loans against stocks in process and in godowns would, it is submitted, be considerably mitigated if warehouse companies with large capital resources, on the lines of those in America and Japan, were formed to take over stocks and keep them in their own warehouses and advance moneys on them at an appreciably smaller rate of interest. The storage of cotton, etc., undertaken by these warehouse companies in America on behalf of merchants, and the large facilities given to them in the matter of charges and all incidental expense

connected with the storage have proved of considerable assistance in enabling merchants to move their stocks under conditions which are not so onerous as those imposed by banks.

The rates of interest on loans and cash credits made by banks to industrial concerns for working capital vary in proportion to the credit of the company. To concerns of established commercial repute and financial credit, the rate on loans is the prevailing bank rate, and the rate for cash credits is ½ per cent. over the bank rate, the latter being subject as a rule to the application of the 'half-interest clause'. Apart from Government and other Trustee securities deposited with banks, it is not uncommon for them to demand and obtain from mill companies the joint promissory note of the company and its managing agents, as collateral security for advances made. The main burden of financing the industry thus falls on managing agents, and weighs especially heavily in times of difficulty and distress.

It is a matter worthy of note that, in the worst crisis that the industry has been known to have experienced, banks have lost little, whereas the losses incurred by managing agents have been enormous, as is evidenced from the following facts :—

(1) Managing agents' firms voluntarily gave up Rs. 18·01 lakhs commission during the last three years ;

(2) In addition, agency firms incurred losses of Rs. 85 lakhs as a direct result of financing the mills under their control, exclusive of a further loss of Rs. 34 lakhs which is almost inevitable in respect of loans made by the agents to four mills which are now in liquidation ; and

(3) No less than Rs. 200·7 lakhs of money advanced by managing agents had to be converted into capital following on capital reconstruction schemes of individual mills.

In view of their losses, it would be obviously expecting the impossibility to insist on their financing the industry any longer without seriously impairing its position *vis-a-vis* foreign competition and a high bank rate.

The insistence by banks, in many cases, on obtaining the managing agents' guarantee in addition to the hypothecation of their stocks by Mill companies in order to secure advances for working capital has severely affected their ability to continue to finance the companies under their control, especially in view of the growing public distrust of industrial investments, inseparable from a period of financial stringency, when shyness of capital is markedly noticeable. In many cases, it is well-known that managing agents have had to borrow money in order to lend it in their turn to the companies under their control.

In considering the best class of agency for the provision of initial and current finance for industries, the Industrial Commission debated two possibilities : (1) The Industrial Trust or Financial Corporation, and (2) Industrial Banks. With regard to the first they observed, "it is, in its nature, too directly concerned in the success of particular undertakings to be a suitable instrument for the general advancement of industries, though a useful agency for furthering particular industrial interests. The multiplication of concerns in any industry to which it is already committed, will not be welcomed by it." This was said in 1916. It is a moot point whether something could not be done to aid their establishment at the present juncture when national sentiment is so evidently in favour of helping national industries. "The Industrial

Bank ", they said, " on the other hand, if wisely conducted, is benefitted by an increase in the number of individual undertakings, and it can, to some extent, prevent their extension beyond the safety point." They were led to this conclusion by their examination of the material regarding the part played by banks in the industrial development of Japan and Germany.

On the question of the kind of business which an industrial bank should undertake, they say, "an industrial bank with a sufficiently large capital to ensure its safe working must, at any rate for some time, combine ordinary banking business with its industrial activities to enable it to obtain a return on its capital ". They further lay down that " the clearest possible distinction must be drawn between industrial finance and ordinary banking business ". In this connection, they say, " share and debenture capital and long term deposits may legitimately be used for the former purpose, but short term deposits never ; and any attempt so to employ them should be most strictly prohibited, if necessary by law ". Their remarks on the constitution of such a bank will bear re-quotation *in extenso,* and we would refer the Committee to paragraph 291 of their Report. Lack of financial facilities, they go on to state, is at present one of the most serious difficulties in the way of the extension of Indian industries, and that industrial banks, especially under the improved conditions towards which the measures proposed by them were intended to lead, would be a potent means of removing these difficulties and of affording help to industrialists.

With reference to the need for Government assistance, at any rate in the earlier stages of its career, the Commission were of the opinion that the establishment of industrial banks working on approved lines was of sufficient national importance to justify Government assistance.

In any large scheme of industrial re-organization or amalgamation, such as is contemplated by several millowners in Bombay, the establishment of Industrial banks on the lines indicated by the Industrial Commission would fulfil an important need of the hour in helping forward the successful inauguration of such a scheme.

Obviously, one of the most powerful weapons that can be used to overcome the obstacles that would arise would be the power to call in credits ; and while this weapon may not be used in actual practice, the knowledge that it is held in reserve is almost always sufficient. In this connection, it may be said that neither in England nor in Germany is it the function of the banks—who lack specialised knowledge of the wide variety of industries they may be interested in—to work out actual schemes of re-organization. They can, however, bring pressure to bear on those industries which are in difficulties to initiate and carry through such schemes. In a period of industrial development and change, such as exists in the cotton textile and other industries, it is very necessary that every help should be afforded by those whose function it is to grant credits to industry.

If, as a beginning, banks in India embarked on a more enterprising policy of recommending industrial investments to their customers, it would create the much-needed feeling of confidence among people who could thus be educated into parting with their hoardings and earn a higher return on their capital than what they usually obtain from Government securities or savings bank Deposits. Sufficient capital could be raised by the issue of shares and debentures to pay for the whole of the block account, and also to provide a certain amount of the working capital. They should follow the system prevailing in Germany, where the issue market is very largely

controlled by banks, and where no important industrial issue has much chance of being successful unless it has their support. The general public in that country have been educated to expect the name of a substantial bank or syndicate of banks on an issue prospectus. The banks take full responsibility for their issues, and keep in permanent touch with the issuing companies, generally through representation on the Board. In England, 'trust companies' and 'investment corporations' take the place of industrial banks in Germany. But they have not the same permanent interest in the well-being of their industrial customers, nor have they, for the most part, the standing and financial backing, to enable them to take anything approaching the share taken by leading joint stock and private banks in industrial finance in Germany.

If a similar procedure were adopted by banks here, the general public would gradually come to learn to invest mainly through their banks who could be relied upon to give them sound advice, regarding industrial investments. It would also materially assist in bringing industrial concerns into touch with a wider public from whom they could obtain all their requirements in the way of current finance. Banks would thus be taking their proper share in the advancement of Indian industries along right lines. There is a potential source of danger, however, in that banks would attempt to unload their holdings of unremunerative issues on their clients, but it may be said with confidence that banks, with their reputation to maintain, would be expected to scrutinise very carefully every industrial proposition brought up before them, and would assure themselves, in the case of particular industries which may be in difficulties, that they have done everything possible towards re-organization before recommending investment to their clients.

In conclusion, it may be said that the most important lesson to be drawn from these aspects of German banking is the value of an active industrial policy conceived on broad lines, and backed by the co-operation of banks.

No. 61.

Letter from Jagmohandas J. Kapadia, Esq., Honorary Secretary, The Bombay Shareholders' Association, Bombay, dated the 4th April 1930.

I have the honour to forward herewith my Association's memorandum in regard to the questionnaire issued by the Central Banking Committee.

The delay in forwarding the memorandum is much regretted.

GENERAL REMARKS.

Banking in this country requires careful consideration from various standpoints. The first and the most paramount necessity is proper legislation which would inspire investors, particularly small investors, with that confidence which is at present lacking, so as to make them invest freely in indigenous banks. The second point is to place certain restrictions on non-Indian banks. The third point is the establishment of powerful industrial banks under State control, supervision and assistance for the purpose of financing indigenous industries. A stable currency system and adequate banking education are also matters which deserve attention. We shall now proceed to deal with these points in some detail.

I.—Industrial Banks and Credit Facilities for India's Main Industries.

1. The existence of industrial banks commanding large capital with a State guarantee behind them is absolutely essential in India particularly in connection with the floatation of companies undertaking to institute new industries for which joint stock banks are not likely to come forward with financial assistance. If necessary, industrial banks may from time to time advance moneys to old established industries also.

2. The question of starting industrial banks under a special Act may also be considered. The State may reserve the right to recover out of future profits the deficit (if any) in minimum guaranteed dividends already paid. The Comptroller of Joint Stock Banks, to whom reference has been made hereafter, should be one of the directors of such banks. Industrial banks should not be permitted to take current account deposits but they should only accept long-term deposits as the nature of their investments might warrant. In Japan the practice is to use current deposits only in financing of running business on pure banking lines. Joint stock banks have within their province financed industries as far as loans for floating capital may be required but they cannot naturally be expected to supply block capital which may be lost in frozen assets. The proper machinery as above stated is the Industrial Banks for such purpose. In order to obviate any difficulty as regards the use of the word "bank," the industrial bank may not be called as such. It may be called industrial corporation or syndicate.

3. In their memorandum to the Textile Tariff Board the Bombay Millowners' Association observed "banks in India will not lend money as they do in England to the mill company itself. They require not only the signature of the mill company for any loan made to the mill, but also require in addition the guarantee of the managing agents". As against this the Tariff Board observe in paragraph 43 of their Report that the

evidence received was indefinite and that managing agents do not fully utilise the facilities which banks are prepared to offer owing to their unwillingness to hypothecate goods to the bank. We have no doubt the Central Banking Committee will go into this point fully. We are of opinion that banks should advance moneys freely on the security of liquid assets so long as these assets are in themselves enough to constitute sufficient security in all respects without insisting upon the signature of the managing agents as collateral security.

4. With a view to relieve the pressure of financial difficulties we suggest, at least in this Presidency, the establishment of large warehouse companies on the footing of those prevailing in America and Japan. These warehouse companies will have to be started with substantial capital to command confidence of the banks as to the reliability of their warrants. The starting of these warehouse companies would in a large measure, relieve the present difficulty, alleged to exist in the way of mill finance and at the same time be of great assistance to other trades. It is stated that mill companies have to store a large quantity of raw cotton for their requirements for the year and that after goods are made ready for the market, they have perforce to hold some on in their godowns during slack times. All this means locking up a very large amount of capital. In the United States of America and Japan this difficulty is obviated through the presence of large warehouse companies with which the manufacturers deposit both their finished and unfinished stock against dockets or warrants issued by those companies on the security of which banks advance money. The merit of this method is obvious. Here, though the goods are virtually hypothecated, the transaction remains a secret. If we, therefore, have similar arrangement in India, considerable difficulties in connection with mill finance could be obviated. The sentimental objection on the part of mill agents against the idea of handing over their warehouses in charge of banks in mortgage would be overcome and the loan raised by a more convenient method. The warrants being issued by substantial companies minutely describing the goods which are actually stored up with them would naturally be easy of negotiation with the bankers. There is ample guarantee here as far as they are concerned that the description of the goods is correct. In this connection late Mr. B. F. Madon made a special point in his evidence before the Indian Textile Tariff Board before whom he described his experience of the warehouse companies in Japan, where according to him the system was in work and had given complete satisfaction (*vide* page 65, Vol. 4). This system of warehousing will also help importers of manufactured goods such as cloth, hardware, etc., which they may be obliged to hold on, after they have been cleared from the docks. Instead of storing them in their own godowns, they would naturally store them in the godowns of these warehouse companies and get themselves financed on the warrants of these companies. Thus warehouses in special centres of business, besides Bombay, such as Ahmedabad, Cawnpore, Calcutta, etc., would considerably facilitate finance in connection with imported merchandise also.

5. The other remedy for easy finance is industrial co-operation under which an industry can purchase all its requirements at the most economic rates and arrange for credit and other facilities on wholesale footing.

6. As regards special trade banks floated to finance special trades we are of opinion that they are not likely to be successful in the present state of development of trade and local finance.

II.—The Currency System.

7. We are strongly of opinion that a perfect banking system must have as a firm foundation a stable currency. It need hardly be stated that our currency system is very defective. We suggest that in order to arrive at as perfect a foundation as possible, a gold standard footing, as distinguished from a gold bullion standard is absolutely necessary for India.

8. We are of opinion that the Imperial Bank should be more rapidly Indianised.

III.—Non-Indian Banks.

9. In view of the fact that non-Indian banks collect deposits and carry on business in India it is essential in the interest of the public that they should be made to work under certain restrictions. We suggest that these banks should be made to obtain a license before commencing business. The non-Indian banks that are at present doing business in India should also be made to take out licenses within a reasonable length of time say six months from the appointed date. The license should be granted by the Government of India and the following provisions should have effect.

(a) The statutory restrictions and conditions with regard to prospectuses which apply to Indian banking companies registered under the Indian Companies Act should apply to non-Indian banks, as has been done in England by the New English Companies' Act, 1929 [See part (XII).]

(b) Non-Indian banks should be required to file their balance sheet and profit and loss account in such form and containing such particulars and including such documents as may be required by the law governing Indian banks. If necessary, a standard form may be provided for them. We may point out that the New English Companies Act, 1929, requires foreign companies to prepare their balance sheets in the manner prescribed by the said Act (see section 347). We would add that this regulation should be compulsory in the case of all non-Indian banks and that under no circumstances should an exception be made or allowed as is done at present by the proviso to sub-section (3) of section 277 of the Indian Companies Act. We suggest that non-Indian banks should be required to attach to their balance sheet a separate statement showing the business done in India. The balance sheet and the profit and loss account should be filed not only with the Registrar of the province in which the bank has its principal place of business as is at present required by sub-section (3) of section 277 of the Indian Companies Act but they should also be filed with the Registrar in the province in which the bank in question has established a place of business.

(c) Non-Indian banks should be required to file in India copies of mortgages and charges created by them with the Registrar in the province in which they have established a place of business, if such mortgages and charges are under the Indian law for the time being applicable to Indian banking companies required to be filed with the Registrar.

(d) We suggest that special safeguards should be provided for Indian depositors in the event of winding up of these banks.

10. We also suggest that the provisions set out above should also apply to Indian banks registered outside British India so far as practicable.

IV.—Banking Legislation and Regulation of Banking.

11. As joint stock banks are governed by the Indian Companies Act, some of our suggestions in connection with banking legislation and regulation of banking would necessarily involve amendment of the provisions of that Act though incidentally some of these suggestions may be also applicable to other joint stock companies. We have, however, confined ourselves to those important matters which in their application to banks require immediate and special consideration at the hands of the Committee.

12. In our opinion there should be proper banking legislation. The same may be incorporated either in the Companies Act or in a separate enactment. We would prefer the former course. The main object of this legislation should be to inspire public confidence in our banking institutions and put heart into the investors, small and large, to go and put their money into banks. Confidence being most essential to banking, no banking system which does not command the confidence of the investing public can record healthy progress. This aspect has been emphasised over and over again by eminent Indian leaders like Lala Lajpat Rai and recognised Indian experts like Sir Dinshaw Wachha. The annual market report of Messrs. Premchand Roychand & Sons for 1929 refers to a circular issued by a Provincial Banking Committee in which emphasis is laid on the importance of this point in the following words:—

> "No banking system, however, can ever be fully successful except by individual endeavours. Besides the people generally should have faith in it as otherwise it will be unable to attract the people's money. And a whole series of bank failures in the past have diminished what faith there previously was. The result is that the Indian capitalist, whether large or small is unwilling to invest his savings in indigenous banks".

> "The second problem for solution, therefore, is how to create the required faith in a banking system and thereby induce the people of India to transfer their idle capital to active use in the banks".

We, therefore, hope that the subject of banking legislation and regulation of banking will be approached by the Central Banking Committee from the standpoint of establishing confidence in the investing public in indigenous banks.

Two important factors which would be conducive to this confidence are (1) publicity in and (2) control over the affairs of joint stock banks. Our suggestions are formulated with these objects in view.

Memorandum of Association.

13. We strongly urge that banks incorporated under the Act must be strictly restricted to legitimate banking business, unless they are industrial banks. The tendency at present existing in certain quarters to introduce in the objects clause of a bank's memorandum of association multifarious objects should be strongly put down by legislation. We give in appendix A annexed herewith a few examples of this vicious practice taken from the memoranda of association of some of our joint stock banks to which particular attention is requested.

We would point out that the memorandum of association of the Sholapur Bank one of the banks referred to in the appendix came under judicial notice very recently in the case of *Govind* v. *Ranganath* (*32 Bombay Law Reporter, page 232*). The learned Chief Justice referring to

sub-clause (F) of the said memorandum observed "as regards sub-clause (F) which runs 'Generally to transact any business of a merchant or capitalist either as principal or agent' this is obviously too wide, and would have to be cut down to conform with the main objects of the company". In paragraph 46 of his judgment His Lordship further observed "Fools cannot wholly be protected from the wiles of company promoters and agents, but the path of the latter may be made more difficult by the Legislature, and particularly so in a case like the present, where, thanks to the managing agents and the directors, the expressed objects of the company, *viz.*, to encourage the habit of saving money and to facilitate small but safe investments, have been steadily falsified in actual practice".

On this point we would also quote the following passage from the report of the liquidators of the Alliance Bank of Simla Limited:—

> "We have endeavoured in our report to trace the history of the bank from the time when the policy of the association with the firm of Messrs. Boulton Bros., was first adopted, for it was the impossibility of reconciling this policy with legitimate banking business that caused the destruction of the foundations of the bank's prosperity and brought about its ultimate ruin".

By legitimate banking business we mean:—

Lending money on short accommodatcion as against permanent or long term loans, discounting of bills of exchange payable within not more than six months, issuing of drafts, letters of credit, circular notes, accepting bills on behalf of customers which are drawn on the security of letters of credit, receiving of deposits and current account and honouring cheques drawn on them, receiving of valuables and security in safe custody and collecting dividends and interests on the latter, acting for customers in all matters of finance usual with bankers, buying and selling stock exchange securities cn behalf of customers making periodical payments for customers, to clubs, charity funds, life companies, etc.

We submit that banking business should be defined by the Legislature. The Registrar should be authorised to refuse to register companies as banking companies whose objects do not satisfy the requirements of the definition. We would point out to the Committee that some years ago the Government of India consulted public bodies with regard to certain points relating to banking legislation; one of the points referred to the placing of restrictions against banks taking up business outside that of banking. The commercial community was almost unanimous in giving the aforesaid power to the Registrar. A resolution to that effect was also passed at the 9th Indian Industrial Conference held on 25th December 1913. It also appears that in 1914 an informal conference was convened by the Bombay Government at which the Hon'ble the Advocate General, the Registrar and representatives of local Chambers and Associations were present; this conference also came to the conclusion that the Registrar should be granted the power referred to above.

Articles of Association.

14. There are various points connected with articles of association of banks which we take this opportunity to bring to the notice of the Committee, so that they may be dealt with. They are as follows:—

(1) *Indemnity Clause.*—A clause is usualy inserted by which directors, auditors and officers are exempted from all liability for negligence unless

the same is caused through wilful default or dishonesty. This clause has been held to be highly undesirable by the English Company Act Amendment Committee and in the New English Companies Act of 1929 the same has been declared void. We would like the same course to be followed in India where this article has also done considerable mischief as will be noticed from the following passage from the joint opinion of several counsels who were consulted regarding the affairs of the Alliance Bank:—

> "This article would protect any Director who did not actually act dishonestly and, therefore, *prima facie* any of them connected with the firm"

In the case of the Sholapur Bank already referred to, the learned Chief Justice of Bombay observed as follows in regard to indemnity clauses appearing in articles of association:—

> "I would also like to add that in my opinion this appeal shows the desirability of some amendment of the Indian Companies Act 1913 so as to nullify * * * * and also to nullify the wide indemnities given by such articles of association as articles 98 and 99 in the present case. In this connection I would draw attention to section 152 of the New English Companies Act, 1929, which in effect makes articles of that nature void."

(2) *Rights of Members.*—There are clauses in banks' articles by which a shareholder is prohibited from voting or *exercising any rights of membership* if he happened to owe to the bank any money whatsoever in whatever capacity. In our opinion, this prohibition should be restricted to moneys due on calls only.

(3) *Bank's Lien on Shares.*—Articles usually give banks first and paramount lien on their shares for any money advanced or any debt due. In our opinion this article hampers financial facilities on the bank's shares. We would, therefore, suggest that the lien should be confined to unpaid calls only.

(4) *Call Notices.*—We suggest that it should be made compulsory that for a call at least two months previous notice in writing should be given. Call notices by mere advertisement should not be considered sufficient.

(5) *Closing of Transfer Books.*—Closing of transfer books should be done by a previous notice only for which some reasonable period may be provided.

(6) *Transfer.*—Articles generally reserve power for directors to refuse to register a transfer of either fully or partly paid shares without giving any reason. It is noticed frequently that a very wrong and arbitrary use is made of it in the case of fully paid shares. The shareholders' redress at law here is almost illusive as is proved by the decided cases. We are for total abolition of this power in respect of fully paid shares. In support of our contention we may point out that clause 20 of Table (A) of our Act and regulation 10 of the Imperial Bank of India Act do not authorise refusal of transfer of fully paid shares.

(7) *Borrowing Powers.*—Borrowing powers of directors as set out in the present articles are very wide. They authorise the mortgage of unpaid capital. In our opinion some statutory restrictions here are necessary. Mortgage of uncalled capital should be entirely prohibited in case of banking companies.

(8) *Notices of General Meetings.*—The present practice of giving 7 days' notice of general meetings makes it impossible for shareholders to inspect the share register, to obtain proxies, and otherwise take effective action at meetings. The share register being generally closed during the interval between the balance sheet and the meeting, its inspection is not possible under the law. No doubt the bank will give a list of shareholders but that means delay which in the case of big banks is very great. Again India is a country of distances. We, therefore, suggest that the legislature should provide at least three weeks' clear notice during which time banks should not be permitted to close the share register. On many other occasions also 7 days' notice makes it impossible for a shareholder to take action, *e.g.*, where he desires to move a resolution or amendment for the appointment of a new auditor, or a new director in place of the retiring director, in which cases generally 14 to 10 days prior notices respectively are required. We may further point out that all matters other than those set forth in the original notice constitute special business according to most of the articles of association and require a special notice before they can be brought forward at the meeting. The giving of such notice becomes an impossibility when the original notice of the meeting is of a short duration of seven days only. The result is that supplementary business, however urgent or important, cannot be brought forward before the meeting. We, therefore, suggest that provision should be made by law permitting the bringing up of supplementary business at ordinary general meetings by short notice which may be given by the bank by advertisement only.

Subject to what is stated above notices of general meetings through advertisements in substitution of those by post should be entirely prohibited as provisions to this effect are to be frequently found in articles of banks. The notice in our opinion should be given to all shareholders resident in India, including those of Native States and articles to the contrary should be prohibited. In England notices are sent to all shareholders resident in Great Britain.

(9) *Meetings*: (*a*) *Supplementary Agenda*:—We have made remarks on the point under the heading of "Notices".

(*b*) *Adjournment of Meeting.*—The Chairman should not be given any discretion if the meeting by the majority of those present decides upon an adjournment. This is what clause 54 of Table "A" provides, but articles of many banking companies are so framed as to give option to the chairman on the point.

(*c*) *Proceedings of Meetings.*—Frequently banking companies insert articles by which the chairman is made the sole judge of the validity of every vote tendered at the poll. This in our opinion is an undesirable power. Another article in the same connection also provides that the objection as to the legality of the vote should be raised at the time of the poll. This operates harshly as in many cases it is impossible for a shareholder present to be aware of the validity or otherwise of the votes tendered by the other shareholders. There is no reason why his legitimate right to object subsequently to invalid votes should be taken away and the jurisdiction of the court thus ousted. In our opinion both the articles aforesaid amount to a denial of justice.

Articles of banking companies generally contain a clause prohibiting a member from being present at or voting at a meeting unless he has been possessed of the shares for a certain period prior to the meeting which period generally ranges from two to four months. We are of opinion that

this period should not exceed six weeks. So far as we understand the object of the provision in question is to prevent a new shareholder from registering himself as such merely in view of the meeting. If that is the object the clause should be restricted in its operation so that it may not prevent an existing shareholder from voting in respect of shares registered in his name within the period fixed.

Again some safeguard is required against directors unduly prolonging registration of transfers with a view to bring a shareholder within the operation of the clause in question. We suggest that some period should be fixed within which the directors should be made to register transfer deeds.

The general form of proxy should in our opinion be prohibited entirely.

In the case of many banks clauses are inserted to the effect that if a resolution passed by directors and notified to the members in the usual manner is ratified and confirmed by the members by a prescribed majority, it shall be as effectual as a resolution of a general meeting. In our opinion it seems hardly necessary to emphasise that such a provision is most undesirable in case of banking institutions seeking as they do to deprive shareholders of meeting and exchanging views and then arriving at a decision which is the basic principle on which the organisation of joint stock companies rests.

We have thus briefly tried to portray the various undesirable features of the above mentioned two important documents which form the charter and regulations of joint stock banks. They should be eliminated in order to inspire greater confidence. It is a sad commentary that shareholders who are the real proprietors of the bank are by means of these manipulations made at the instance of promoters deprived of effective control over the affairs of the bank.

We further suggest that banks being peculiarly situated as institutions of public utility should be required to furnish copies of memorandum and articles of association to any member of the public on payment of the prescribed fee.

Audit and Examination of Bank Accounts.

15. We are in favour of audit and examination of bank accounts by examiners. We suggest that an officer called the "Comptroller of Banks" should be appointed in each province whose function should be to exercise special supervision on the working of joint stock banks including British and foreign banks. He should have powers of inspection. Examination of bank accounts should be carried out under the supervision of his department. We are of opinion that this reform will go a long way in restoring confidence among the investing public. There will accrue two distinct advantages, *viz.*, (1) the malpractices, frauds, etc., will be brought to light without much loss of time and at the same time it will be easy to deal with offenders and (2) the original books of account of branches which the auditors appointed under the Indian Companies Act are not bound to check will come under the comptroller's examination in each province; whatever regulations are framed in this behalf must be applicable to foreign banks also.

The words 'Bank' and 'Banker'.

16. We are of opinion that the use of the words 'bank' or 'banker' should be restricted to companies doing banking business and registered under the Indian Companies Act or similar other enactments.

Private limited banking companies.

17. In case of private limited companies doing banking business there is no reason why their balance sheets and accounts should not be filed with the Registrar and be open to public inspection. We have suggested prohibition of the use of the word 'bank' in case of private firms or partnerships and it would be inconsistent with that suggestion to allow a private partnership to use that word under the garb of a private limited company and call itself a 'bank'. We would go further and say that the various exemptions and privileges allowed by law to a private limited company are inconsistent with a private limited company doing banking business and using the word 'bank' in its name.

Subscribed and paid-up capital.

18. We suggest that no banking company should be allowed to proceed to allotment until at least half of its authorised capital is subscribed. We further suggest that 50 per cent. of the subscribed capital should be called upon within a year.

Depositors representation on the Board.

19. We beg to suggest that representation of depositors should also find a place on the bank directorate as in the case of insurance companies where policy holders' directors are now so familiar. Legislation should make this compulsory.

Management of Banking Companies.

20. We are of opinion that the managing agency system as applied to joint stock banks is as undesirable as it is unwarranted. In the ordinary course of things firms of managing agents are interested in a variety of concerns. The temptation on their part to lend out money to concerns in which they are so interested or to sink large capital in one single industry with which they are closely connected is very great. Their interests being largely in conflict with their duties here, these advances are not made after carefully calculating and weighing the security involved as they should be and as a result disaster is provoked.

In our opinion the affairs of banking companies must be managed either by a manager or by a managing director; he must be a full time servant of the company and should not be interested in other concerns. The term of office of the managing director or the manager should not exceed a stated period after which he may be appointed by the shareholders in general meeting. Notwithstanding anything contained in the contract, the managing director shall be removable from his office in the same manner as any other director. In the event of his ceasing as a director, his contract with the company should cease to have effect. Similar provisions should have effect in the case of a manager.

Loans to Directors.

21. We are strongly of the opinion that loans (either with or without security) to directors, their firms or joint stock companies in the managing agency of which they are partners or with reference to which they are acting as managing directors should be absolutely prohibited. In support of our view we would invite the Committee's attention to some startling facts brought out in liquidations of banking companies. The report of the

liquidators of the Burma Bank shows thaat "the bank was used practically entirely for the purpose of the directors Messrs. Mower and Clifford in the financing of their schemes". The report of the Committee of investigation appointed by the creditors of the Alliance Bank shows that "as soon as Boulton Bros. came on the scene with controlling influence, a vicious circle of group companies was formed which dragged the unfortunate bank to destruction". The report further states "within the short period of seven years of their entrance nine chief satellites of the group sucked the life blood of the bank. Messrs. Boulton Bros. and the companies under their control managed in the brief space of time to deplete the financial resources of the bank to the extent of a little more than four crores of rupees upon securities which were for the most part of a hazardous nature." Referring to the Peoples and Amritsar Banks the Controller of Currency in his report for the year 1913-14 observes as follows:—

"Moreover the auditors report disclosed that, apart from the fact that half the assets of the People's Bank and two-thirds of the Amritsar Bank were laid up in various companies in which the Directors were personally interested, it was a common practice for one of the banks to advance money to the second on the security of the shares of a third, while the third concern would similarly advance money to the first on the security of the shares of the second". Mr. Findlay Shirras the late Director of Statistics in his memorandum to the Industrial Commission referring to the People's Bank observed "out of the total advance of Rs. 1.07,09,000-14-1 we find that no less a sum than Rs. 71,72,637-13-1 has been advanced to companies or other concerns in which certain of the Directors of the bank have been interested either as individuals, directors or as joint borrowers".

The reform which we have advocated above is of the utmost importance in the interests of independent, healthy and efficient management of banking companies inasmuch as their affairs are under the law to be managed by their directors.

In the event of our proposal not finding acceptance at the hands of the Committee we would suggest the following alternatives:—

(*a*) That advances to bank directors or agents on the security of shares of companies in which they are managing directors or managing agents should be prohibited. In our opinion the affairs of the Alliance Bank, the People's Bank and the Amritsar Bank very strongly emphasise the necessity for this prohibition.

(*b*) That loans to directors personally should be strictly limited and should in no case be advanced except upon proper security.

(*c*) That in its balance sheet, the bank should disclose specifically and separately the loans advanced to each director personally and should state whether in each case they are good or not.

(*d*) All advances made to each joint stock company in which any of the bank's directors is a member of the managing agents firm should be separately shown.

(*e*) No director should be allowed to be present at the Board meeting when any contract or arrangement in which he is directly or indirectly interested is under consideration by the Board. We understand that such a provision exists in the case of one well-known Indian joint stock bank. We also

understand that according to the bye-laws of the Imperial Bank, no Governor or member of a local Board is allowed to sit, judge or vote on any matter connected with any business of the bank in which he is personally concerned.

(f) Loans to directors or their firms repaid during the year should be separately shown in order to deal with the gentleman who owing money on 30th December repays it and borrows it again on 1st January.

Loans on the banks' shares.

22. We suggest that banks should be statutorily prohibited from advancing loans on their own shares directly or indirectly. There have been cases of abuses on this point. We cite only two instances, *viz.*, those of (a) the Credit Bank, (b) the Pioneer Bank. In the first case out of the sum of rupees ten lakhs shown as paid-up capital, more than half had been paid out of the moneys of the bank, the system being to allot shares to persons of little or no means and to advance to such persons the full value or nearly the full value of the shares so allotted. In the second case the figures were still more remarkable, 65 per cent. of the so-called paid-up capital having been provided out of the money of the bank. The fact that many articles of association of banks contain this prohibition would also show that it is a very desirable provision.

Loans to Auditors.

23. We suggest that banks should be prohibited from advancing money to their own auditors in order to avoid scandals of the type which were brought to light in the case of the Bengal National Bank. The peculiar position occupied by auditors makes it necessary to prohibit such advances on general principle of public policy.

Advances without security.

24. We further suggest that advances to an individual without security should be prohibited.

Purchase of immovable property.

25. We suggest that purchases of immovable property except for the bank's use or in realisation of its dues should be prohibited and in the latter event retention should only be for such period essential to recover the bank's dues.

Investment in shares and debentures of joint stock companies.

26. We are for total prohibition of investments by a bank in shares and debentures of joint stock companies. In our opinion this would come within the legitimate sphere of industrial banks.

We suggest that in any event investments in joint stock companies in which the bank's directors are interested should not be allowed. We are forced to make this suggestion in view of the disclosures made in the case of the Alliance Bank and the Bank of Burma. In the former case nearly 90 lakhs were locked up in shares of companies in the Boulton group and were disguised in the balance sheet under the heading

of "Government papers, debentures and other stocks". We also suggest that banks should in no case be allowed to invest in shares of those companies which are not quoted on a recognised stock exchange.

Restriction on long term credits.

27. We suggest that according to the principles of modern banking, joint stock banks should be prohibited from utilizing their funds in advancing money on long credits. This point is sufficiently emphasised in para. 289 of the Industrial Commission's Report.

Meetings of Banks.

28. We suggest that in case of banks the ordinary annual general meeting should for the purpose of computation of time be distinguished from the extraordinary general meeting by legislation. We further suggest in this connection that the annual general meeting to pass balance sheet, Accounts, etc., must be held not only once at least in a calendar year but also not later than 12 months from the holding of the last annual general meeting instead of 15 months as at present provided.

In our opinion the present facilities to shareholders for calling a meeting by requisition are inadequate. The law requires such meetings to be called by the holders of not less than 1/10th of the issued share capital of the bank upon which all calls or other sums then due have been paid. Experience has shown that it is impossible in many cases to exercise this right. We do not see why a simple operation such as the calling of a shareholders' meeting should require as a condition precedent such a high proportion of the holders of shares. We, therefore, suggest that this proportion should be substantially reduced.

Votes.

29. Experience has shown that employees of the bank are sometimes used as nominees to attend bank meetings and vote under the garb of shareholders. This should be stopped; a penalty for both the transferor and transferee may also be prescribed where it is proved that the employee is not a *bona fide* shareholder.

Inspection and Audit; Sections 138 and 139 of the Indian Companies Act.

30. At present shareholders of a bank holding 1/5th of the shares issued can apply to the local Government for investigation by inspectors. Considering the wide area which India covers, this proportion in our opinion is rather very high. In the case of banking companies having a large number of shares it tends to act as a definite handicap. We, therefore, suggest that it should be reduced to 1/10th. The power of investigation possessed by the local Government may be transferred to the Comptroller of Joint Stock Banks whose appointment we have already suggested. The requirements about deposit of security against cost should be either entirely done away with or the amount reduced to a small figure as is done by the New English Act, 1920. On the analogy of this Act, the Comptroller of Joint Stock Banks should be given powers to prosecute any person connected with the bank who may be criminally liable. On the same analogy we would further suggest that our Section 141 (3) should be so altered as to provide that the expenses of investigation should be borne by the State if it results in a prosecution and in any other case the same should be borne by the company, unless the Comptroller otherwise directs.

If as a result of such investigation it is found that the affairs of the bank require to be put on a more satisfactory basis the bank and its officers should be compelled to do so and in default penalties should be prescribed.

Registration of mortgages and charges of a Bank.

31. We suggest that it should be compulsory for a banking company to file particulars of its mortgages and charges with the Registrar of each Presidency or Province where it has branches. Registration should be enforced in case of property acquired by banks which may be already encumbered. The last provision has already been accepted by the English Act of 1929. Satisfaction of the mortgage debt should be compulsorily recorded before the Registrar. As this is not compulsory at present, persons searching the register are frequently misled.

Prospectus of a Bank.

32. The non-disclosure of material facts in a prospectus or in a statement in lieu of prospectus should in our opinion, be made subject to a penalty in case of banks. It should also be made compulsory that copies of contracts disclosed in the prospectus should be filed with the Registrar along with the prospectus.

Register of Directors of a Bank.

33. In case of register of directors of banks particularly, we would like to have, besides the usual information, a clear indication of the names of the different joint stock companies in which the directors are also holding similar offices.

Register of members of a Bank.

34. We suggest that in case of banking companies there should be separate index of the names of its members from that of the register of members for ready reference and inspection by shareholders, as is already provided for by the English Act, 1929.

Inspection of Register of members of a Bank.

35. At present under a legal decision a shareholder can only inspect the register but cannot take copy of it or take extracts therefrom. Of course, he can claim copies to be supplied by the bank. It is found in practice that the supply of copies by the bank creates delay which frequently defeats the object for which copy or extract is wanted. There should be, therefore, an alteration in Section 36 of the Act of such a character as to enable shareholders not only to inspect but also to take copies or extracts.

Minutes of bank meetings

36. In our Act there is no specific Section which enables a shareholder either to obtain inspection of minutes of general meetings or claim to be supplied with copies of the same; cases have been recorded where these requests have been refused. We submit that these requirements should be made compulsory. We also go further and say that there should be an enactment in case of banks, by which they should be compelled to send

copies of minutes of their general meetings to shareholders as many banks are already doing. We also request that such minutes should record briefly the chairman's speech, the resolutions passed, observations, suggestions, and criticisms by shareholders and replies to the same.

Attack against Banks.

37. Suggestions have been made in some quarters that before a shareholder can take criminal proceedings against a banking company or its directors, auditors or officers under Section 282 of the Indian Companies Act he should first obtain a certificate from the Advocate General. We are afraid the remedy seems to be even more dangerous than the disease itself. The learned Advocate General can only consider whether there is a *prima facie* case and if on that footing he certifies a prosecution which may ultimately turn out to be abortive and the bank in spite of its ultimate success may be ruined. The very news that such a certificate was given would scare away the depositors and cause a run. On the other hand an independent prosecution devoid of this formality is not likely to create the same scare. Besides this power of prosecution by a shareholder is a very valuable right. Experience has shown that in some cases where prosecutions have taken place in the past many important facts have been brought to light.

Directors of Banks.

38. We are of opinion that on certain specific points the rights and obligations of bank directors so far as banking companies are concerned must be strictly defined by law and not left to the discretion of the draftsmen of the articles who are generally creatures of the Board of a company or its promoters. The points to which we would particularly like to draw the Committee's attention are as follows:—

(1) The Chairman of the Board of Directors should not be allowed to act in that capacity for more than three years without re-election by the company in general meeting at the end of that period.

(2) The persons appointed as directors should not be those who are already directors of more than a specified number of companies to be fixed by the statute.

Members of the Board of Directors of a banking institution should be individuals who are able to devote sufficient time and attention to its work and hence we are making this proposal. In this connection Mr. Justice Page of the Calcutta High Court, recently observed that "the case before him boldly illustrated the danger of having the same persons on the Boards of too many companies, for they would not thereby be able to do their duty to all". (See "Capital", dated 15th March 1928, page 529.)

(3) A director of a bank should not be allowed to act as a director of another bank.

(4) A director of a bank should not be related either to the managing director, or the manager, as the case may be.

(5) No two persons who are partners of the same mercantile firm or are directors of the same private limited company or one of whom is a general agent of or holds a power of procuration from the other or from the mercantile firm of which the other is a partner shall be eligible as director of the bank. We have suggested this prohibition with a view

to avoid directorates of joint stock banks being made happy family affairs. We understand that similar provision is in force in the case of the Imperial Bank.

(6) No person shall be eligible as a director if he or any partner of his or the firm in which he is a member holds any other office or place of profit under the company except that of managing director. The object aimed at by the suggestion, we submit, is apparent. We are here following to a large extent the principle laid down in clause 77 (*b*) of Table "A". As a matter of fact there are some banks who have adopted this or a similar clause in their articles.

(7) In view of the fact that one of the primary duties of a bank liquidator is to investigate the affairs of the bank and take action wherever necessary, it is submitted that no director of a bank should be eligible to act as its liquidator.

(8) The removal of a director by shareholders should be made as easy as possible. Under the present law unless articles provide, no director can be removed nor can he be compelled to retire. We desire that it may be enacted that a director can be removed by an ordinary resolution. When a director is thus sought to be removed at the annual general meeting, a short notice of the said resolution to all shareholders through an advertisement should only be necessary and no special notice should be compulsory. Similar facilities should exist in the matter of appointment of additional directors. The period of notice as at present prevailing (which is generally of 8 to 10 days' duration) for nominating some other person in the place of the retiring director should be shortened.

(9) All directors of a bank should retire at the statutory meeting offering themselves to be re-elected if they so desire. At all subsequent ordinary meetings 3/4th of the number of directors should compulsorily retire by rotation. In the case of a banking company, it is most undesirable that a director should enjoy a long lease of office.

(10) No director of a bank should be permitted to resign before the statutory meeting at which he should be present to give such explanation as may be required of him.

(11) Voting by directors or solicitation of proxies by directors on the appointment or removal or re-appointment of chairman, directors or auditors of the bank should be prohibited. So far as the appointment or removal of directors or re-appointment of chairman is concerned it is evident that they should not vote. In case of the appointment or removal of auditors also, it is essential that the auditors should feel that they do not owe their appointment to the influence or patronage of directors.

(12) The directors' report should be filed with the Registrar of Companies and should contain *inter alia* the following particulars:

(*a*) The number of Board meetings held during the year.

(*b*) The number of Board meetings attended by each director.

(*c*) Remuneration paid to each director should be disclosed in the directors' report which should also give the names of the companies where any of the directors is holding similar office.

(*d*) The names of the directors of the bank should be stated on the face of the report.

Auditors.

39. We have already stated that it should be illegal for directors to vote or to solicit proxies on the appointment or removal of auditors.

We insist that auditors should be given a right to attend and speak at all meetings of the bank, a power which has been already given by the New English Act of 1929.

In our opinion there are occasions when it would be a great advantage if the auditor is given power to call at other banks, companies, firms, etc., with whom the bank is dealing and with whom its property is alleged to be lying if he at any time has reason to verify such dealings or property. We make this suggestion because there have been cases where bank managers have contrived to produce for the auditors' inspection securities actually misappropriated by them.

The affairs of certain banks have brought to light the fact that the auditors have often passed over important matters which they should have brought to the notice of shareholders. The following are some of the instances in point:—

(1) Loans were shown as fully secured in spite of the fact that securities against them were insufficient and doubtful.

(2) Provisions for bad and doubtful debts were made out of the so-called appreciated value of securities.

(3) Loans were passed as fully secured although in computing the security, the personal standing of the debtor had been taken into consideration.

(4) No hint was given to shareholders when the title or value of security became the subject of litigation.

(5) Immovable properties and securities were written up without disclosing this fact to the shareholders.

Auditors being the agents of shareholders appointed to investigate into the internal working of the bank by examination of its books, it is their duty to report to their principals practices of the kind alluded to above. They have seldom done that because the law does not compel them to do it. We, therefore, suggest that auditors should be compelled by law to elucidate in their report all matters of importance which are likely to influence the shareholders' judgment as to the true financial position of the bank. In particular, they should state whether the securities held against loans fully cover in each case the value of the loans and whether any of the unsold assets of the bank have been written up for any purpose whatever. At present the necessity for this provision is the greatest in view of the amendment made in the statutory form of the balance sheet to which we shall presently refer, under which auditors have been made the sole judges of the adequacy or otherwise of the provision for bad and doubtful debts.

We give below a specimen form of certificate given by the auditors of Barclays Bank and suggest that something to this effect should also be made compulsory here.

"*Auditors' Report to the Members of the Barclays Bank, Limited.*

We have compared the above balance sheet with the balances on the books at the head office, and with the detailed returns from the branches. We have verified the cash with the Bank of England, the cash and bills

at the head office, the investments of the bank and the securities held against money at call and short notice. We have obtained all the information and explanations we have required; and we are of the opinion that the above balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the bank's affairs according to the best of our information and explanations given to us and as shown by the books and returns of the bank."

The above form of certificate has been substantially adopted by the big five banks of England.

Under the present law auditors appointed by shareholders are not bound to audit the accounts of a bank's up-country branches. For the purposes of their report they rely upon the certified returns of these branches. We suggest that these returns should be certified by qualified local auditors at the places where these branches may be situated.

We suggest that the statutory notice of 14 days required to be given under Section 144 (6) should be substantially reduced.

In case of auditors the indemnity clause in the articles should be made void.

Auditors should also be compelled to bring to the notice of the "Controller" all irregularities that they may come across in the performance of their duties.

Accounts.

40. In our opinion which is supported by some of the best authorities in the United Kingdom, the balance sheet of a joint stock bank should be much more comprehensive than at present in order that shareholders and depositors may have all possible information in detail that should be given to them without unduly weakening the position of these institutions. The way in which accounts are published at present by banks leaves much to be desired because even those who are conversant in account keeping are unable in good many cases to exactly gauge the position of assets and liabilities as disclosed there. This is one of the reasons why many people hesitate to rely upon balance sheets of these institutions. Bank balance sheets should, in our opinion, be published half-yearly and a standard form should be laid down for banks as distinct from Form (F). We would also submit that these balance sheets should be translated in one of the principal vernaculars of the district where the bank's registered office is situated. We should also insist that besides the balance sheet, publication of profit and loss account should be made compulsory. These statements of accounts should be forwarded to shareholders at least three weeks prior to the date of the general meeting at which they are to be considered. Our definite suggestions on the form of these accounts are briefly as follows:—

Balance sheet Form "F".

A.—Property and Assets Side.

41. (i) *Bad and Doubtful Debts.*—In connection with this item we are strongly of opinion that the original reservation in Form (F) as applied to banks was perfect and that the present alteration is not an improvement but a definite slide-back. Originally it was compulsory to state separately debts considered doubtful or bad and to show what provision had been made for the same. Unfortunately due to a particular judgment of the

High Court of Bombay in connection with the Central Bank of India Limited this position was altered by a notification of Government to the effect that bad and doubtful debts of a bank for which provision had been made to the satisfaction of auditors need not be separately shown. We regret that this sudden change was effected without consulting the various interests involved. The fact that the English practice in this respect differed from the law here should not have influenced the authorities for the simple reasons:—(i) that there is no *pro forma* form of the balance sheet in England, and (ii) that the Indian investing public requires greater protection in the present conditions of banking in this country.

The original provision was useful in that it brought to the notice of the shareholders the actual amount of bad and doubtful debts so as to put them on inquiry as to whether the said debts were the results of carelessness or want of duty on the part of directors. This safeguard is now removed with the result that the director's negligence, if any, in matter of loans and advances, goes unnoticed.

The amendment made leaves it to the judgment of auditors to decide whether ample provision has been made for bad and doubtful debts. In an important case auditors are reported to have accepted as satisfactory, provisions for bad and doubtful debts made out of the so-called appreciated value of unsold securities. Strange to say that it was seriously argued here that "in auditing the accounts it is usual to consider each loan or advance made by the bank. We considered the securities and the value of it handed over by each client for the loan or advance and also any collateral securities and their value that may exist. We also took into consideration the personal standing of the debtors. *We also took into consideration whether any allowance should be made or not* after paying the due regard to the securities their value and *personal standing* * * * *".

If in the exercise of the discretion now vested in them auditors are to be permitted to accept as satisfactory provisions for bad and doubtful debts made out of the so-called appreciated value of securities, if they are also to be permitted to take into account the personal standing of a debtor in passing a loan entered as fully secured even though the security was in fact insufficient, it is clear that the Government notification has done incalculable mischief, the gravity of the consequences of which have not been fully realised. We, therefore, submit that the original position, *i.e.*, one prevailing prior to the aforesaid notification should be restored.

(ii) *Particulars of Book Debts.*—In connection with "debts considered good and fully secured" it should be compulsory for banks to state the nature of securities involved. In our opinion this should be particularized as follows:—

(*a*) Debts against securities of the Government of India or local Government.

(*b*) Debts against trustee securities and securities of local bodies or authorities in India.

(*c*) Debts against securities of the British Government.

(*d*) Debts against trustee securities issued in Great Britain.

(*e*) Debts against securities of foreign Governments stating the name of Governments concerned.

(*f*) Debts against debentures of joint stock companies.

(*g*) Debts against shares of joint stock companies.

(*h*) Debts against immovable property; advances made against immovable property outside British India should be specified in detail.

(*i*) Debts considered good and fully secured by the guarantee of one or more persons in addition to the personal security of the debtors.

(iii) *Investments.* (*a*) *Floating Assets.*—Investments should be classified under important headings such as investments in (i) Government paper, (ii) Immovable property, (iii) Debentures, (iv) Shares of joint stock companies, etc., distinguishing between those quoted on a recognised stock exchange and those that are not quoted. Investments in shares or debentures of companies in which a director of a bank is interested as managing agent should be clearly specified in detail.

The mode of valuation laid down by the statutory form is too elastic. The bank is not pinned down either to show its investments at cost or at market value with the result that investments are shown in some cases at a valuation which may neither be the cost nor the market value. This position needs improvement. Instances have come to light in which appreciation in the market prices of investments has been taken into account before the investments had been actually realised at those prices. On the face of it such a practice is repugnant to sound finance and should be stopped. We further suggest that the mode of valuation should be made applicable to all forms of investments, including investments in landed property.

(*b*) *Fixed Assets.*—In case of this form of investment, *e.g.*, bank's premises the law should make it compulsory that they should be given at cost, deducting therefrom figures of depreciation that may have been charged against them during the past and current years. It is most desirable that bank's premises meant for its business should be separately shown from the other immovable properties and not mixed up with them as has been done in some cases.

B.—Capital and Liabilities Side.

42. (i) *Funds.*—We suggest that when definite reserve funds are created for different purposes, such as general reserve fund, reserves for depreciation of securities, reserve for depreciation of landed property, reserve for provident fund, etc., the same should be shown separately from year to year.

(ii) *Loans Deposits, etc.*—We suggest that current account fixed and savings bank deposits as well as liabilities on bills accepted and loans borrowed from other banks should each be shown separately on the balance sheet. The same should be the case with deposits on account of security and provident funds.

(iii) *Contingent Liabilities.*—The term ' Moneys for which the company is contingently liable'' is very ambiguous in the absence of sufficient description of the matters in respect of which the bank may be contingently liable.

Profit and Loss Account.

43. We have already suggested that profit and loss account should be made compulsory. This has been done by the new English Act. The general principles on which the same should be prepared are those laid down in clause 107 of Table "A", but we believe the following headings would be most appropriate in case of a bank:—

Credit Side—

(*a*) Interest on loans.

(*b*) Interest on investments of Government papers, and debentures.

(*c*) Dividends on investments of shares of joint stock companies.

(*d*) Rents and profits of immovable property.

(*e*) Exchange.

(*f*) Commission.

(*g*) Discount.

(*h*) Profits on the sale of capital assets, if any.

(*i*) Profits on investments in gilt-edged and other securities.

(*j*) Any exceptional receipts of a non-recurring nature.

Expenditure Side—

(*a*) Interest paid on fixed deposits.

(*b*) Interest paid on current accounts.

(*c*) Interest paid on savings bank deposits.

(*d*) Establishment charges at head office specifying in detail the remuneration paid to the managing director, or manager, including all emoluments.

(*e*) Establishment charges at local branches.

(*f*) Establishment charges at up-country branches.

(*g*) Provident fund contributions at head office and branches.

(*h*) Directors' fees.

(*i*) Committee members' fees.

(*j*) Postage and telegrams.

(*k*) Stationery.

(*l*) Other expenses as per details attached.

(*m*) Provisions for bad and doubtful debts (if any).

(*n*) Bad debts written off.

(*o*) Depreciation on building and furniture.

(*p*) Any exceptional payments of a non-recurring nature.

The profit and loss account sent to shareholders should be signed by the directors and officers of the bank and certified by the auditors. It should be filed with the Registrar.

Form "G".

44. There are many deficiencies in this statement. We suggest that it should be brought more into line with the general form of the balance sheet. It is desirable, *e.g.*, that the bank's "fixed deposits" be shown separately from "current account deposits", the liability for the former being fixed at various future dates whereas that on the other is payable on demand. The heading in the Form, *viz.* "Other contracts" under which fixed and current account deposits are usually stated is rather too elastic.

A classification of assets in Form G appears to us to call for radical amendment. Provision is not made for showing separately advances secured and unsecured. Cash on hand is not required to be stated there.

The above are some of the more apparent deficiencies of the form and we think that we have stated enough to show that early revision of the same is desirable.

We suggest that the form should also be amplified and that the same be made compulsory in the case of foreign banks also. We further suggest that the statement should be published and exhibited at the premises of the bank and its branches every month.

Winding Up.

45. Many desirable reforms in the law relating to winding up of joint stock banks are over due.

We suggest that no person should be appointed liquidator of a bank if prior to his appointment he was its director, officer or auditor or held any other place of profit under the bank. In view of the fact, as already stated, that a duty of a liquidator is to examine the affairs of the bank and take such action as may be necessary against its officers auditors and directors, the necessity for the appointment of an independent person as liquidator is evident.

We have had a recent case where, in the resolution appointing liquidators, certain conditions were laid down which deprived them of certain powers ordinarily vested in them, and which on principles of public policy they must possess, with the result that Their Lordships of the Privy Council had to pass severe strictures on the conditions prescribed. We, therefore, suggest that such restriction on the rights and liberties of liquidators should be made null and void in law.

46. We further suggest that provisions for appointing statutory committees of inspection as in England must now be incorporated in the Indian Law. This wholesome procedure was disallowed by the Select Committee which considered the present Indian Companies Act on the ground that at the time it was premature, although experience of the liquidation of the Bank of Burma very strongly suggested the need for such reform. In any event the time for its introduction is now ripe. The facts brought out in the liquidation of the Alliance Bank of Simla would again seem to show that the necessity for this reform is very great. The committee of investigation appointed by the creditors of this bank was helpless inasmuch as it did not carry any legal status. This instance, in our opinion, completely vindicates the demand for the appointment of statutory committees of inspection. The more this reform is delayed the greater will be

the discontent among shareholders and depositors. If committees of inspection are considered necessary in an advanced country like England, we fail to understand why they should be deemed unnecessary in India. If anything, their existence would be of the greatest value in India owing to ignorance of the general body of creditors and contributories.

47. At present creditors do not possess effective control over liquidations of insolvent banks although their stake is the most real and probably the largest. This is an anomaly. In England a fundamental change has been effected in the law whereby creditors have now secured the power to nominate a liquidator of their choice unless the majority of directors have filed a statutory declaration that within 12 months from the commencement of the liquidation the debts of the company would be paid fully. (See Sections 230 to 240 of the New English Companies Act). If there is any difference of opinion between shareholders and creditors as regards the person to be appointed as liquidator, power is granted to have the point settled by court. We have brought these changes in the English Law to the notice of the Central Banking Committee as they deserve consideration.

48. We further suggest that some kind of control is necessary over liquidators of joint stock banks.. In England such control is exercised by the Board of Trade. We submit that some such control over liquidators is also necessary in India. It will have the effect of exercising a chastening influence upon liquidators and is likely to be instrumental in shortening liquidations and keeping down costs thereof.

49. We further beg to suggest that the Governor-General in Council should have power to order transfer of winding up proceedings from one province to another. The absence of such power was very keenly felt in the case of the Bank of Burma. Although the amount due to depositors in Rangoon was insignificant as compared with the amounts due to depositors in Bombay, Calcutta and Madras (Bombay's stake being the largest), the liquidation was carried on in Burma in spite of the protests from the Advisory Committee appointed by the creditors in Bombay. The result was that creditors residing in Bombay, Calcutta and Madras found it extremely difficult to represent themselves effectively at such a distant place as Burma. In England the Lord Chancellor has power to order transfer of winding up proceedings from one place to another. (See Section 133 of the English Companies Consolidation Act, 1908, and Section 165 of the New English Companies Act.)

50. We next beg to suggest that such reports as may be filed in court by official liquidators and which are not confidential should also be filed with the Registrar of joint stock companies for the information of the public who undoubtedly have a right to know how the affairs of banks are managed.

51. Under the present conditions, when a bank is being wound up it is not possible for the liquidator to prosecute delinquent directors or officers of the bank if there are no funds with him. A concrete instance of the kind was recently furnished in the case of the Bengal National Bank whose liquidators reported to the court that although certain persons were guilty of criminal offences, no funds to prosecute them were available. It will be realised that this is not a satisfactory position. In our opinion public interest demands that better facilities should be provided for enabling prosecutions to be instituted in suitable cases by the State with public expense. This aspect of the matter has already been recognised in England where under

section 277 of the English Companies Act elaborate provisions have been made for bringing offenders to book at State expense. We beg to commend these provisions to the consideration of the Central Banking Committee as they deserve attention.

52. We find that there have been differences of opinion in various High Courts as to the effect of Sec. 235 (3). On this point the following observations of the Chief Justice in the Sholapur Bank case are important:—

> "I would like to add that in my opinion this appeal shows the desirability of some amendments of the Indian Companies Act so as to nullify the existing differences of opinion in various High Courts as to the effect of Section 235".

We, therefore, suggest that the Section should be so amended as to make the period of limitation run from the date of the liquidators' appointment.

V.—Banking Education.

53. In connection with this point, we understand that ample facilities are now provided for theoretical education in connection with practical banking both by Universities and local colleges. Colleges such as the Sydenham College of Commerce, provide a curriculum for banking in connection with B. Com. with specialised banking, and Colleges like Davar's College of Commerce, Bombay, provide for diploma courses of the Institute of Bankers. The training in specialised banking diploma was started in Bombay by Davar's College of Commerce, as early as in 1912 and a large number of bank officials in the Imperial Bank as well as other indigenous banks, who hold to-day responsible positions as branch managers and agents in these banks are the products of this diploma course. What the bankers desire is that both theoretical and practical courses should be imparted simultaneously as may be observed from the regulations of leading banks like the Imperial Bank of India. They are here following the traditions of the British bankers because in the United Kingdom the same formula prevails extensively. Outside the Presidency of Bombay, Universities, such as the University of Allahabad, Lucknow, Agra, Mysore, etc., provide for specialised training in banking both in the Universities and in the colleges affiliated to them. The only drawback to be noticed here is this: our indigenous joint stock banks, as well as the Imperial Bank encourage scholars by employing them as apprentices, with a view to help them to acquire practical training side by side with the theoretical education at the colleges. The British and foreign exchange banks, on the contrary take up a very undesirable attitude of avoiding this responsibility expressly or by implication. Unfortunately the result is that our young men are barred from the opportunity of studying the problems of foreign exchange in a practical manner, without which it is impossible for us to start indigenous foreign exchange banks. We, therefore, submit that some method should be devised by which foreign exchange banks which are making profits out of Indian business should be required to give facilities to Indian scholars, such as those given by the indigenous joint stock banks and the Imperial Bank as stated above. We would also suggest that some arrangement should be made by which some desirable and able young men can go out to England with State scholarships and work in exchange banks there with a view to study foreign exchange in actual practice and then come back to take up appointments in our banks. Thus inauguration of exchange business in our banks can be made

easy. The Indian Institute of Bankers which was started only a couple of years ago, has so far done excellent work not only in organising suitable courses and lectures and holding examinations for the diploma course in banking but has also favourably influenced the local bank managements in the direction of becoming more favourable to the employment of Indian apprentices. The Institute is also issuing a Journal for the benefit of young scholars and apprentices, as well as bank assistants, in which suitable subjects are dealt with by experts in a simple style, which can be rapidly assimilated by those scholars. The result is that in course of time it is anticipated that we shall have a sufficiently large supply of able bank officers for the expansion of banking institutions in this country.

APPENDIX "A".

EXTRACTS FROM THE MEMORANDA OF ASSOCIATION OF SOME BANKING COMPANIES.

Bank "A".

1. Under clause 3(7) the bank is authorised to carry on *all* kinds of financial, commercial, industrial and other operations.

2. Under clause 3(12) the bank is authorised to farm revenues, taxes, privileges, duties, etc., of any State, Municipality or person.

3. Under clause 3(14) the bank is authorised to seek for and secure openings for the employment of capital and with that view to prospect, inquire, examine, explore and test.

4. Under clause 3(15) the bank is authorised to carry on all kinds of promotion business and in particular to form, constitute, float, lend money to, assist and control any company, association or undertakings.

5. Under clause 3(17) the bank is authorised to carry on and transact every kind of guarantee and indemnity business.

NOTE.—The Central Banking Committee will please mark the very wide manner in which various objects have been expressed.

Clause 3(7) is enough for the bank to do any business under the sun.

Bank "B".

1. Under clause 3 (*c*) the bank is authorised to carry on agency business of *any* description.

2. Under clause 3 (*d*) the bank is authorised to promote or finance or assist in promoting or financing *any* business undertakings and industries of any description either existing or new and to develop and form the same either through the instrumentality of syndicates or otherwise.

3. Under clause 3 (*e*) the bank is authorised to form and promote syndicates and partnerships of all kinds.

4. Under clause 3 (*b*) the bank is authorised to undertake obligations of every kind and description.

5. Under clause 3 (*i*) the bank is authorised to undertake any business transactions or operations commonly carried on or undertaken by promoters of companies, financiers, concessionnaires or capitalists.

NOTE.—The Central Banking Committee will please mark how widely the various objects have been expressed. The objects are not confined to business commonly carried on by bankers; " to undertake obligations of every kind and description " and to " undertake any business, transactions or operations commonly carried on by promoters of companies, financiers, concessionnaires or capitalists " are certainly very wide objects embracing business outside the scope of legitimate banking business.

Bank "C".

1. Under clause 3 (*d*) the bank is authorised to buy and sell all kinds of property real and personal, movable and immovable.

2. Under clause 3 (*f*) the bank is authorised to transact any business of a merchant or capitalist, either as principal or agent.

NOTE.—Comments on this Memorandum are unnecessary.

Bank "D"

1. Clause 3 (*a*) authorises the bank to carry on the business of banking in all its branches and departments, ***including all financial and monetary transactions.***

2. Clause 3 (*m*) authorises the bank to promote any company the promotion of which may seem directly or indirectly calculated to benefit the bank or the interest of its members.

3. Clause 3 (*a*) authorises the bank to carry on any business which may seem to the bank capable of being conveniently carried on in connection with its objects or which is calculated directly or indirectly to enhance the value of or render profitably any of the bank's property or rights.

No. 62.

Letter from R. W. Buckley, Esq., Chairman, Exchange Banks Association, Calcutta, dated the 17th March 1930.

Under separate cover I have despatched to you 30 copies of the replies by the British Members of the Associated Exchange Banks to the questionnaire issued by the Central Committee.

I.—INDUSTRIAL BANKS AND CREDIT FACILITIES FOR INDIA'S MAIN INDUSTRIES.

Question 1.—State with reference to one or more industries which you have had opportunities to observe the credit facilities required with special reference to (a) fixed capital expenditure or block, and (b) current requirements or floating capital.

Answer.—Fixed capital expenditure and block should in all cases be supplied by public or private subscription of shares or debentures in the undertaking.

Question.—State also how far in your opinion these requirements are met by various types of banks and bankers and how far the present facilities of financing fall short of the actual requirements?

Answer.—Confining our attention to jute, the principal industry of this province, we think that, everything considered, the movement of crop is in the first instance satisfactorily financed by the indigenous bankers in the districts. These bankers or shroffs fill a position in the districts which can never be so satisfactorily filled by established banks. They are in much closer personal touch with the agriculturist than an established bank can ever be. More than half the raw jute is consumed by the Calcutta jute mills who, thanks to their large resources, now require much less finance from the banks than they did ten years ago.

Question 2.—Different methods of financing and different classes of paper or documents are used in industries in connection with production, import and export. In some cases it is the buyer who finds the money himself or through his banker; in other cases it is the seller who finds the money for himself or through his banker; and in others it is the middleman, merchant, or commission agent who does this. Describe any prevailing trade or business practices relative to these which have come under your observation and suggest any improvements in the present organisation which, in your opinion, will benefit the different classes of producers and merchants or the community at large.

Answer.—Apart from the mills, the accommodation for storing raw jute in Calcutta is inferior, and is insufficient to allow of more than a comparatively small quantity being stored.

The exchange banks are reluctant to make advances against the hypothecation of jute stored in the mofussil. If better godowns for baled

jute were provided in Calcutta on the lines of the Sewri Cotton Sheds in Bombay, the exchange banks could do much more than they do at present to finance the crop pending shipment. We think that the construction of such godowns, capable of storing large quantities of jute would be of much benefit to the industry, as such storing capacity in Calcutta would enable the merchant to market his jute under fairer conditions than obtain at present.

Question 3.—Give particulars of the rates of interest which are charged at present on loans and advances and also of the different classes of securities which are approved by banks, financial houses and commission agents.

Indicate any difficulties experienced on account of lack of credit facilities or on account of high interest or discount rates or any other account and suggest remedies therefor.

Answer.—The rate of interest in Calcutta for loans against approved security is usually 1 per cent. over Imperial Bank Rate. We do not know the rates charged by indigenous bankers in the mofussil.

Question 4.—If in your opinion banks in India have not financed industries, large or small, freely, to what causes do you attribute their reluctance? Do you think financing of industries is possible by banks as they exist at present and by their present methods?

If not, do you suggest the establishment of any other machinery?

Answers.—We do not think that any industries floated on sound lines and showing reasonable promise of success have been unable to obtain the financial assistance necessary. No doubt many schemes drawn up on doubtful lines have failed to obtain the help asked for from banks but we think that on the whole banks as they exist at present are capable of supplying the finance required by industries.

Question.—Are you in favour of trade banks, i.e., banks which specialise in dealing with special trades?

Answer.—We are not in favour of trade banks which specialise in dealing with special trades.

Question.—Do you favour the establishment of an industrial bank in each province?

If so, what constitution would you suggest for such a bank?

What are the facilities which in your opinion should be given to such a bank either by Government or any other agency?

Would you suggest any restrictions on the grant of loans by such a bank in order to secure reasonable safety for the bank while providing finance for industries?

Answer.—We do not favour at present the establishment of industrial banks, as any attempt which has been made in the past to run such banks has not proved successful.

II.—FINANCE OF FOREIGN TRADE.

Question 1.—Would you state, with reference to any trade that you have had an opportunity to observe, the credit facilities which are required and to what extent banks supplying these facilities fulfil the present requirements.

In your opinion, is there any class of merchants who are unable to secure all the assistance they need either in India or in foreign countries, and if so could you give any reasons for this state of affairs? What remedies do you suggest?

Answer.—We consider that merchants are at present able to obtain from the exchange banks all the assistance they require to finance their import and export trade provided they are of good reputation and reputed to be possessed of means in reasonable proportion to the trade they do. It is only in cases where banks are unable to ascertain, even approximately, the financial status of a merchant, that the latter finds difficulty in securing the accommodation he may need in the conduct of his business which. if this information were available, a responsible man would not experience. All merchants, therefore, in their own interests, should adopt the business-like practice of having their books regularly audited by a recognised chartered accountant and a balance sheet, in correct form, drawn up from time to time. At present there are no information bureaus in India on the lines of Seyd's, London, and Dun's, New York. If organisations of this nature were formed, it would greatly facilitate matters.

Question 2.—What are the credit instruments in use with regard to foreign trade?

Answer.—The earliest documents in connection with the export trade against which credit is obtained are shipping letters of lien or hypothecation of goods in course of shipment. This as a rule is in connection with goods which have already arrived at the ports, but the exchange banks also have branches at the larger inland centres of trade where they finance the import and export business direct from these centres.

The main documents, however, are bills of exchange accompanied by full shipping documents which are negotiated with the exchange banks.

Question.—In what conditions is credit available against these documents and in what conditions is clean credit available?

Answer.—The import trade is financed by bills of exchange negotiated or advanced against by the exchange banks in the countries from which the shipments are made. The trade from the Continent of Europe is largely financed through London. After the arrival of the goods in India, considerable assistance is given to importers by the exchange banks in the way of deliveries against acceptance and on Trust Receipt, or by means of loans on the goods to enable the relative bills of exchange to be paid.

Clean credit is not in the ordinary way obtainable, but clean bills of approved parties may be negotiated by the banks.

Question.—What are the rates charged by the Banks?

Answer.—On advances against shipping liens, interest rates are based on the Imperial Bank rate, (probably bank rate or 1 per cent. over with a minimum of 6 per cent.). On bills of exchange, rates of exchange are based on rates of interest ruling in this and other countries concerned and fluctuate accordingly.

Imports are usually carried in transit (until payment of the bill) on a round rate of 6 per cent. but this rate will rise when bank rates in the exporting countries are exceptionally high.

Rates of interest on local facilities to importers are based on the Imperial Bank rate, probably with a minimum of 6 per cent.

Question.—Are there any seasonal fluctuations in these rates?

Answer.—Seasonal fluctuations occur, but these are reflected in the Imperial Bank Rate, which regulates matters.

Question.—What are the facilities existing at present in the export trade for discounting export bills? Are there any restrictions that you have to complain of?

Answer.—A discount market on the lines ruling in European and American finance centres does not exist in India. This, however, does not, in our opinion, affect the export trade as it is conducted in India, the readiness of the exchange banks to buy these bills fills this want and leaves no restrictions.

Question.—Have you any remarks to make with regard to the exchange rates which are charged for the conversion of rupee into sterling or other foreign currencies, and vice versa, *or for the remittance of funds to and fro?*

Answer.—No, competition sees to it that these never get out of hand.

Question 3 (i).—Have you any suggestions to make with regard to:—

(*a*) *the establishment of bonded warehouses,*

(*b*) *the present practice of port trust warehousing,*

(*c*) *the practice by banks of releasing goods on trust receipts, or*

(*d*) *any other methods in vogue for the convenience and facility of merchants engaged in the import trade?*

Answer: (*a*) & (*b*).—We consider the present methods of warehousing are satisfactory, with the possible exception of fuller facilities for handling jute, and fully serve the requirements of the import trade.

(*c*) & (*d*).—The releasing of import goods under trust receipt, or advancing against export goods under letter of lien are really based on the credit of the merchant, as although the principle of these trust receipts and letters of lien is sound enough, legal questions leave their validity sometimes in doubt.

Question 3 (ii).—Do the interests of the traders and the public suffer in any way through any defects in the present organisation and have you any suggestions for its improvement?

Answer.—Yes, in view of what is said above, it is highly desirable that Government should be approached to frame legislation which will give the banker a recognised status, *vis-à-vis* his customer, as to his undoubted prior lien over, and the right to follow the proceeds of the goods specified in the document. It should also make fraud under the cloak of these documents a criminal offence. This will help bankers and traders alike very much in the giving of credit; uncertainty in any shape or form only hinders.

We should also like to see the railway receipt universally recognised as an indisputable legal title to the goods covered by same.

III. Regulation of Banking.

Question 1.—Are you in favour of audit and examination of bank accounts by examiners?

Answer.—Yes, in the case of banks incorporated in India; branches of banks operating in India whose head offices are incorporated outside India

to lodge their consolidated audited balance sheets issued by the respective head offices with the Government of India, Finance Department for their information.

Question.—If so, how should these examiners be appointed and by whom?

Answer.—Chartered accountants or accountants certified under the Indian Companies Act.

We would suggest the appointment of two independent auditors, one by the shareholders and one by the directors. In the case of small banking concerns sufficient confidence might be given to depositors by the appointment by Government or some central financial authority of one auditor only. This would avoid too heavy a charge on a small concern.

Question.—What should be the duties of such examiners? What should be their qualifications and how should their cost be met?

Answer.—The object of their appointment is to submit to the shareholders of an absolutely authentic statement of their affairs, and costs of audit should be met out of the general expenses of the Institution.

Question 2.—Are you in favour of any kind of restrictions being imposed on the business of all banks?

For example, should there be any restrictions of the nature imposed on the Imperial Bank of India under Section 8 of the Imperial Bank of India Act?

Answer.—No, with the exception of the Imperial Bank on whom restrictions, as the custodian of Government funds, are already imposed.

Question 3.—In your opinion is it desirable that the use of the word "bank" should be restricted, and if so, what restrictions do you suggest?

Also state whether you suggest any additional provisions for special application to (a) a private firm in India doing banking business, (b) a branch of a firm, whose head office is located outside India, doing banking business in India, and (c) a branch of a company whose head office is located outside India, doing banking business in India?

Through what agency and in what manner would you have these provisions enforced?

Answer.—We consider that the title "bank" should not be allowed unless the company is registered under the Indian Companies Act and has an authorised and fully paid-up capital of at least Rs. 5 lakhs and that it accepts deposits payable on demand.

(*a*).—A firm should not be allowed to use the title of "bank" unless their banking funds are kept entirely separate from their trading funds, and a separate audited balance sheet submitted.

(*b*) & (*c*).—This also applies to these sub-questions in the case of firms as distinct from banks proper.

Question 4.—Are you in favour of defining by legislation or otherwise the sphere of operations of any class of banks, e.g., co-operative banks, exchange banks, etc.?

Answer.—We are not in favour of limiting by legislation or otherwise the sphere of operations of any class of bank.

We are of opinion that to attempt any such interference would retard rather than help the free and healthy development of trade.

Question 5.—Do you think that foreign banks should not be allowed to do banking business in India unless they received a license? What authority, in your opinion, should have the power to issue, renew and cancel such licenses? What regulations should in your opinion be prescribed for governing the operations of such a foreign bank?

Answer.—We see no objection to a license being required when a foreign bank commences business in India, as this would act as a safeguard against foreign banks of doubtful stability opening, but once a bank has been allowed to establish itself in India there must be no question of the license being cancelled by any authority so long as it complies with the law. Any restrictions of such a nature would undoubtedly hamper the development of trade. The original license might be issued by the Government of India, Finance Department. There should be no regulations prescribed for governing the operations of such a foreign bank. By foreign bank is understood all banks other than Indian and British.

Question 6.—A bank which is a limited liability company registered in India is at present governed by the law of joint stock companies in India.

Do you consider that position satisfactory?

If not, what additional provisions for special application to such banks would you suggest, particularly with reference to (a) authorised and subscribed capital, (b) capital that should be paid up before business is started, (c) provision of reserves, (d) proportion of cash balance to time and demand liabilities, (e) publication of balance sheets, their form and frequency, etc.?

Answer.—Yes. Quite satisfactory in the main, but restrictions should be introduced to deal with the points suggested.

(*a*).—The subscribed capital should be in reasonable proportion—(say 50 per cent.) of the authorised capital.

(*b*).—Paid-up capital of not less than Rs. 5 lakhs, or say 50 per cent. of the subscribed capital.

(*c*).—Restrictions might be made regarding the disposal of profits and dividends limited to a figure (say 5 per cent.) until reserve funds equal to at least 50 per cent. of paid-up capital have been accumulated.

(*d*).—If this question is prompted by the Report of the Royal Commission on Indian Currency and Finance, we see no objection to the proposal that banks should keep a minimum deposit of 5 per cent. of demand liabilities and 2½ per cent. of time liabilities with the central financial authority or his agent bank, to be controlled as suggested in the report, paragraph 161, provided that the option is given of keeping this deposit in the form—either of cash and/or Indian Government securities.

(*e*).—Balance sheets should be published at least once a year in full recognised form.

Question 8.—Would you state the principal causes which in your experience or observation have led to bank failures in India?

What remedies would you suggest to prevent a recurrence of such failures or to secure timely assistance in such cases?

Answer.—Injudicious management, especially in the matter of advances and by payment of dividends without regard to first building up reserves.

We have no suggestions apart from the restrictions noted in the reply to the previous questions.

Question 9.—It has been suggested that in some actual cases in the past where banks have been in difficulties, some plan for amalgamation or reconstruction instead of liquidation would have been in the public interest. Would you state your views on this suggestion and would you recommend any provision for securing that, before liquidation proceedings are enforced, adequate opportunities should be given for exploring the possibility of arranging a scheme for amalgamation or reconstruction? If your answer is in the affirmative, please make suggestions as to the sort of provision which you have in mind.

Answer.—This must be left to the directors, shareholders, or creditors, who in their own interests will wish to follow the course that is the least likely to be to their detriment. No provision is possible; each case would have to stand on its own merits.

Question 10.—It is complained that the cost of liquidation is high at present. Have you any suggestion to make regarding this point and for the reduction of such cost?

Answer.—To be decided by shareholders in the case of voluntary or by the Court in case of compulsory liquidation.

Question 11.—Are you in favour of making any distinction between current accounts and other deposits in the matter of protection of depositors and do you suggest any legislative measures for the purpose?

Do you recommend the creation of a special class of deposits as distinguished from current and fixed deposits under the existing system and the passing of any special legislative measures for the protection of such deposits with a view to encouraging the investment of savings?

Answer.—We do not advise the creation of preferential deposits of any kind.

Question 12.—Have you any suggestions to make in regard to the proposal that is sometimes made that banks which are really stable should be legally protected against unjust attacks on their stability?

If so, please give your views as to who is to determine the cases in which such protection should be extended and in what circumstances, and also the nature of the protection to be granted.

Answer.—While we would deprecate any legislation which would curtail freedom of speech by the public, we would welcome any improvement which could be suggested to deal more severely with unfair and vicious criticism.

Question 13.—What are the various taxes paid by banking companies? Do any of these taxes interfere with the development or amalgamation of banks?

Answer.—Income-tax and super-tax which should not interfere with the development or amalgamation of banks of proper standing.

Question.—Have you any suggestions for modifying, removing or re-adjusting these taxes?

Answer.—No.

Question.—Do you recommend any special concessions, etc., in respect of particular classes of banks, e.g., co-operative banks? State your reasons.

Answer.—No.

IV.—Banking Education.

This portion has been submitted by the Indian Central Banking Enquiry Committee to the Indian Institute of Bankers. We have not, therefore dealt with this section.

V.—General Banking Organisation and Money Market.

Question 1.—Do you find in the present organisation of banks and the money market in different parts of India any defects which are likely to be remedied by—

(a) administrative measures of Government,

(b) legislation, and

(c) co-operation amongst bankers themselves?

Answer.—No.

Question 2.—Have you any suggestions to make regarding greater co-operation between indigenous banks and other banks in India?

Answer.—No. At present time joint stock banks can get advances from the Imperial Bank on security, and indigenous banks, shroffs, Chetties, etc., can also obtain these facilities from their bankers on hundis and securities.

Question 3.—Have you any suggestions to make with regard to the organisation and functions of clearing houses in India?

Answer.—No. The clearing houses in the larger centres work quite satisfactorily as at present organised.

Question 4.—Have you any suggestions to make with regard to the regulation of the bank rate?

Answer.—Should be the province of the Central Banking Authority—at present the Imperial Bank of India.

Question 6.—Can you indicate the nature of frauds and malpractices which have been experienced by banks in India and which have from time to time led to stricter regulation and restriction of credit by these banks, thus making bona fide *constituents suffer?*

To what extent have such frauds and malpractices to be attributed to the inadequacy of existing legal provisions and defective nature of business practices? Can you suggest any change which will afford protection to the banks against such malpractices without entailing any hardship on bona fide *customers?*

Answer.—Frauds and malpractices have no doubt from time to time led to stricter regulation and restriction of credit, but generally speaking these regulations were probably already necessary and were merely emphasized by the fraud.

What we said on the subject of trust receipts and letters of lien under the heading financing of foreign trade, question No. 3, may also be taken to answer the second portion of this question.

Question 7.—Have you any suggestions to make with regard to banking organisation in India by which—

(a) the cost of management may be reduced,

(b) the rates of interest on advances can be brought down,

(c) *greater stability of banks can be assured, and*

(d) *the cash resources of the various banks can be mobilised to meet any emergency or unexpected situation that may arise?*

Answer.—No. These are all matters for the internal management of the banks concerned.

Question 8.—Considering that the dividends of established banks are fairly high, what in your opinion prevents more capital being invested in the expansion of existing banks or the establishment of new banks?

Answer.—So far as the exchange banks are concerned they are enabled to maintain their present dividends on account of their conservative policy in the past of building up large reserves. The resources of these banks, therefore, being ample to meet their requirements in India, there is no occasion for expansion of capital. No difficulty though would be experienced in obtaining this if occasion arose.

Question 9.—Do you support the suggestion that banks in India do not find a sufficiently large number of bills against which they could make advances and that this particular instrument of credit of which the banking systems in other countries make large use is not available in sufficient quantities in India? If so, what are the causes of this and what remedies do you suggest?

Answer.—This may be so, but as exchange banks we do not experience it, our primary function being to finance the import and export trade of the country, which in practice we do. We have, however, referred in previous answers (*vide* Financing of Foreign Trade) to the question of a discount market and an adequate supply of suitable inland bills to support it.

Question 10.—Have you any suggestions to make regarding the organisation of the Indian money market with reference to settlements on stock and produce exchanges?

Answer.—No.

Question 11.—Can you describe the relationship that now exists in India between the banks and the various classes of brokers, such as finance brokers, hundi brokers and exchange brokers?

Answer.—The various classes of brokers usually ally themselves into associations for mutual protection and such associations and their members are recognised by the banks.

Question 12.—Have you any information regarding the general agency business done by banks in India for their constituents?

Answer.—No.

Question 13.—How far have banks in India found the maintenance of their own godowns successful in meeting the trade requirements of their constituents?

Answer.—Quite successful.

Question 14.—Have you any suggestions to make for augmenting the resources of banks so as to enable them to afford further facilities to commerce, industry and agriculture?

Would you recommend any one or more of the following methods for securing the increase in capital or would you suggest any other method:—

(*a*) *by way of foreign capital, i.e., by direct flotations in other countries or through foreign banks; or*

(*b*) *by attracting the savings of the community, or*

(*c*) *by funds made available by Government, e.g., a proportion of the receipts from cash certificates and savings bank deposits?*

Answer.—So far as the exchange banks are concerned, they have ample resources to finance the foreign trade of the country, evidenced by their large investments in the country in the shape of Indian Government securities.

Question 15.—To what extent has the Imperial Bank of India been serviceable in the past—

(*a*) *to the main industries of India, such as cotton, coal, jute, metals, sugar, electrical undertaking (including Hydro-Electric projects);*

(*b*) *to the movement of crops;*

(*c*) *to the exchange banks;*

(*d*) *to ordinary banks—indigenous and joint stock;*

(*e*) *to the Indian States; and*

(*f*) *to the Indian Provincial Governments?*

Answer.—(*a*) and (*b*).—In the ordinary functioning of a bank.

(*c*) Acting as their bankers, but this is a distinct asset to the Imperial Bank, as it means large free balances lying with them.

(*d*) As bankers, functioning along the varied lines of approved banking practice.

(*e*) and (*f*) No information.

Question 16.—To what extent has the Imperial Bank of India been useful in regard to the liquidation of other bank?

Answer.—No information.

Question 17.—Have you any views regarding the present position of the Imperial Bank of India and the position it should occupy in the future?

Answer.—The position of the Imperial Bank today, as far as we can see, is in the main the same as it has been in the past, *i.e.*, the Government bankers.

Its sphere of functioning in the future must await events.

Question 18.—What facilities and concessions has the Imperial Bank of India enjoyed from Government, municipal and other corporations and Indian States?

Should all these be continued or restricted?

State if in your opinion joint stock banks in India should also be afforded similar facilities and concessions.

Answer.—So far as we are aware, the main concession accruing to the Imperial Bank as the Government Bankers is the custody of Government balances. We have no information as to benefits attaching to business with municipalities, corporations or Indian States.

No, we do not think joint stock banks in India should be afforded or should expect concessions, because as pointed out in the exchange banks' letter to the Secretary to the Government of India, Legislative Department, dated 5th May, 1927, once a Central Finance Authority is established, the Imperial Bank on general principle is not entitled to any sustained continuance of the concessions it has heretofore enjoyed as a return for services rendered.

In our opinion, subsidized banking in any form would be a menace to progress.

Chartered Bank of India, Australia & China.

National Bank of India, Limited.

Hongkong & Shanghai Banking Corporation.

Mercantile Bank of India, Limited.

Lloyds Bank, Limited.

Eastern Bank, Limited.

P. & O. Banking Corporation, Limited.

No. 63

Letter from the Indian Institute of Bankers, Bank of India, Ltd., Bombay, No. 3389, dated the 28th March 1930.

SUBJECT.—*Banking Enquiry.*

With reference to your letter No. 1265 of the 21st instant, I have the honour to enclose herewith replies by the Council of the Institute to the questionnaire submitted by the Indian Central Banking Enquiry Committee.

I am directed to inform you that the Council agree to the replies already submitted by the Chamber of Commerce, Bombay, which are also given under the majority of the questions which have been supplemented by the Council wherever necessary.

IV.—BANKING EDUCATION.

Q. 1. What are the existing facilities for banking education in schools and Universities in India?

Is there any co-ordination of effort between such institutions and the banks?

Reply of the Chamber of Commerce, Bombay.

Banking is made one of the special subjects for the degree of "B. Com." in the Sydenham College of Commerce, Bombay. The Economic Department of Indian Universities might follow the example of English and American Universities and devote their energies to the collection and promotion of knowledge in regard to this all-important subject.

My Committee do not know of any co-ordination between Universities and banks, but the Imperial Bank in its published memorandum scheme for training Indians for service in the banks, states: "Preference will be given to candidates who have obtained the degree of Bachelor of Commerce from the College of Commerce, Bombay, to graduates of a recognised University of the United Kingdom or India, to persons who have passed the examination of the Institute of Bankers in England, Scotland, Ireland or India and to those who have had previous banking experience."

Reply of the Council of the Indian Institute of Bankers.

It is true that no direct co-ordination exists at present between Universities and banks. At the request, however, of the heads of commerce colleges and institutions, apprentices are being entertained by some banks, like the Central Bank of India and Bank of India, in order especially to enable them to appear for their C. A. I. B. Examinations, and more often than not, deserving apprentices are being taken over on the permanent staff.

From the number of students offering themselves even as unpaid apprentices it appears that the number of banks in Bombay willing to afford such facilities is limited, and it is desirable that more banks should make it convenient to entertain such apprentices.

Reply of the Chamber of Commerce, Bombay.

The Indian Institute of Bankers should form a means of liaison between banks and educational Institutions.

Reply of the Council of the Indian Institute of Bankers.

Q. 2. Do banks provide any facilities for the training of boys in banking business ?

What is the present method of recruitment of the staff by the Imperial Bank of India, the Indian joint stock banks, the exchange banks and the co-operative banks ?

Reply of the Chamber of Commerce, Bombay.

The Imperial Bank of India formulated the scheme referred to in the foregoing answer.

Staff officers for the Imperial Bank are recruited at present largely in England but under the above scheme an increasing number will be recruited from the Indian staff.

The staff of the exchange banks is drawn from their home offices where candidates are trained fo· some years.

The clerical staff of the Imperial Bank of India are recruited locally, largely from boys who have just left school.

Candidates for posts under the scheme referred to in the first paragraph are selected after examination by a Selection Committee appointed by the Board. They must not be more than 25 years of age.

Reply of the Council of the Indian Institute of Bankers.

Most Indian joint stock banks have no definite schemes for the recruitment of their staff officers, which in most cases is based on seniority in service coupled with efficiency and experience. At the same time, certain banks do entertain deserving young men with a view to train them up for responsible positions as staff officers.

Q. *3.* **How far is instruction in banking, theoretical and practical, combined at present ?**

Reply of the Chamber of Commerce, Bombay.

The Indian Institute of Bankers provides for those engaged in banking facilities for studying the theory of banking and has set examinations for this purpose at regular intervals.

Reply of the Council of the Indian Institute of Bankers.

Facilities for instruction in the theory of banking are provided by private commercial colleges in some of the important cities of India. They hold evening classes for the convenience of those employed in banks and other mercantile offices. The Indian Institute of Bankers is not a scholastic body but one of its chief objects is to encourage the study of the theory of banking and allied subjects. To ensure this, the Institute has been engaged in the following activities :—

(*a*) First examination held in April 1929.

SUBJECTS FOR THE EXAMINATION.

Part I.

Practice and Law of Banking.

Economics.

English Composition.

Commercial Geography.

Elementary Accounts and Commercial Arithmetic.

Part II.

Practice and Law of Banking.

Economics.

English Composition.

Commercial Geography.

Foreign Exchange.

Indian Government Financial Administration and Procedure.

Reply of the Chamber of Commerce, Bombay.

Reply of the Council of the Indian Institute of Bankers.

A prize endowed by Sir Norman Murray, late Managing Governor of the Imperial Bank of India, is awarded to the best candidate each year.

(*b*) The Institute issues a quarterly journal containing articles on banking and kindred subjects by practical bankers, economists and financiers and information about the activities of the Institute. Copies of the journal are issued free of charge to members of the Institute.

(*c*) Prizes are offered for essays on banking subjects, the winning essays being published in the journal of the Institute. The following are the subjects for the Prize Essays for the year 1930.

1. The possibility of promoting closer relationship between banks and agriculturists in India.

2. The desirability of establishing a Reserve Bank in India.

3. The development of indigenous Indian joint stock banking in the present century.

(*d*) Libraries and Reading Rooms have been established at Bombay and Calcutta and a library at Madras. It is intended to open additional centres at important places in India when and where membership warrants.

(*e*) Lectures by eminent bankers, financiers and legal men are arranged at the Institute's premises at Bombay and Calcutta, and subsequently published in the journal of the Institute for the benefit of members generally.

Q. 4. Can you give any information regarding the facilities afforded in other countries in the matter of banking education ? Have you any suggestions to make regarding the facilities that should be made available in India ?

Have you any suggestions to make in regard to the grant of facilities for higher training outside India to bank probationers and bank assistants in India ?

Reply of the Chamber of Commerce, Bombay.

(*a*) My Committee have no information.

(*b*) *Nil.*

Reply of the Council of the Indian Institute of Bankers.

There are better opportunities for Indians to get a sound training in India than in England. An Indian student passing the London or Indian Institute of Bankers examination, with a few years' practical training in India would prove to be more efficient in and better qualified for his work than one who works in a branch office of a London Bank and returns with the idea of having received special training outside India. An Indian apprentice in an English bank can naturally not get a chance to get an insight into higher banking problems. He is more or less attached to routine work which cannot be of material assistance to him in his future career. Theoretical study combined with practical experience alone brings about the best results.

It is desirable to send young Indians after a good training in banks in India for a practical study of international exchange and the various problems connected with currency and exchange in exchange banks abroad, if it could be arranged by Government. Students possessing high qualifications and having good practical banking experience would only be able to take real advantage of such facilities, provided they are given genuine opportunities of receiving such training. Deputing recruits of mediocre ability for training in banking outside India would serve no useful purpose.

Q. 5. Have you any suggestions regarding the constitution of the Indian Institute of Bankers ?

Reply of the Chamber of Commerce, Bombay.

No suggestions.

Reply of the Council of the Indian Institute of Bankers.

The constitution of the Institute in brief is as follows :

Council.—There is a Council for the management of the affairs of the Institute, which consists of not less than 20 and not more than 30 members. Only fellows of the Institute are eligible for election as members of the Council.

At every ordinary general meeting one-third of the members of the Council retire from office and are eligible for re-election.

There is a President of the Institute who is elected at the ordinary general meeting each year, and continues in office till the close of the next ordinary general meeting. He is eligible for re-election. Only members of the Council are eligible for the office of President.

The Council may from time to time elect such of their members as they think fit to be Vice-Presidents of the Institute.

Membership.—There are four classes of members, namely :—

(*a*) Fellows.

(*b*) Associates.

(*c*) Certificated Associates.

(*d*) Ordinary Members.

Fellows.—Fellows must be elected by the Council. Each applicant must be nominated by two or more fellows who must certify in writing that the candidate is a fit person to be elected a fellow. The Council have power to elect, as honorary fellows, men of distinction in the practice or literature of banking, mercantile law, political economy or other kindred subjects.

Reply of the Chamber of Commerce, Bombay.

Reply of the Council of the Indian Institute of Bankers.

Associates.—Associates must be elected by the Council from those who have been not less than 10 years in the service of any banking establishment, or from those who have passed the examinations instituted or recognised by the Council, or from those who, being on the staff of a banking establishment, are graduates of a recognised University. Each applicant must be proposed by two fellows of the Institute, who must certify in writing that the candidate is a fit person to be elected an associate of the Institute.

Certificated Associates.—Certificated associates consist of those members who have gained the certificate of the Institute.

Ordinary Members.—Ordinary members must be elected by the Council in accordance with rules from time to time prescribed by the Council. Ordinary membership is open only to those on the staffs of recognised banks.

Q. 6. What is the present position and what in your opinion should be the future position of the Indian Institute of Bankers in regard to banking education ?

Reply of the Chamber of Commerce, Bombay.

Its development and functions should run on the same lines as the English Institute of Bankers with which it might be affiliated.

Reply of the Council of the Indian Institute of Bankers.

The scheme to form an Institute of Bankers in India was launched with a view to have some sort of educational institution to train young Indian bankers and make them more efficient in their profession. It is the intention and desire of the Council that the Institute should develop and function on lines similar to those of the English Institute. The examinations of the Institute are already recognised by some of the banks and it is intended that the present standard of the examination shall be maintained. The Institute's

Reply of the Chamber of Commerce, Bombay.

Reply of the Council of the Indian Institute of Bankers.

membership at present exceeds 1,000 and is increasing every day. It is yet early to measure its achievements in the initial two years, but the enthusiasm of its members and the measure of success which has so far been achieved gives hope that in course of time the Indian Institute of Bankers will occupy a similar position as that occupied by the English, Scottish and Irish Institutions in their respective countries. There is no doubt that the examinations, in course of time, will be considered a principal factor in the education of young bankers in India.

Q 7. What is the training of indigenous bankers at present ?

Have you any proposals of a practical nature for the provision of special training for this class ?

Reply of the Chamber of Commerce, Bombay.

(a) The training of indigenous bankers is confined to practical experience in the business.

(b) In the primary schools instruction should be given in elementary accounting, in arithmetical exercise in interest, commission, discounts, etc. This may be followed by the middle and higher schools giving instruction in banking subjects, co-operative principles, etc.

In the Universities a special Chair might be instituted for this highly important subject.

Lectures by bankers on banking subjects should be provided, and lawyers might lecture on the laws governing banking and kindred subjects. My Committee have in mind the "Gilbart" lectures. The Institute of Bankers in each centre should provide lectures for its members and arrange for them to be given in the Universities.

Reply of the Council of the Indian Institute of Bankers.

The Council agree with the reply of the Chamber of Commerce, Bombay.

The Indian Institute of Bankers are arranging a series of 5 or 6 lectures to be delivered by stipendiary lecturers to members in Bombay on the following subjects :—

"Economics" and "Practice and Law of Banking"

Q. 8. What are the prospects, present and future, of boys trained in banking in India ?

Do you attribute the slow development of banking and specially branch banking to absence of trained men in India ?

Reply of the Chamber of Commerce, Bombay.

(*a*) With the large field available and the paucity of banking concerns, it should follow that the growing demand for banks should furnish good prospects for individuals trained in banking. The difficulty of providing men of the requisite experience and cautious outlook will of course be felt for a long time.

(*b*) The point that must not be lost sight of when speaking of banking development is that it is not so much a question of introducing banking in the general sense of the word in a country that is devoid of banking organisation of its own, but rather the substitution of the Westernised system of joint stock banking for the existing network of indigenous shroffs, sowcars and small money-lenders who at present provide the main banking machinery throughout the large agricultural areas of India. It is the substitution of one form of banking for another, and the process must be gradual. The immediate prospects are the gradual substitution of Indian trained banking staff for the European trained staff and thereafter the rate of progress must necessarily be somewhat slow. As in the legal profession the supply will probably ultimately exceed the demand, but for some years to come the supply will be insufficient.

Reply of the Council of the Indian Institute of Bankers.

The Council agree with the reply of the Chamber of Commerce, Bombay.

No. 64.

Statement of Evidences submitted by the Indian Insurance Institute, Calcutta.

The question of the investment of insurance funds is of considerable importance, not only to the particular insurance company concerned, but also generally to industrial enterprise in the country. It, therefore, is comprised within or vitally connected with the problems under investigation by the Indian Central Banking Enquiry Committee.

We accordingly beg to present the following note in answer to question 14 of section V of the questionnaire of this Committee.

Insurance companies accumulate and have to keep very large funds. The interest on these funds being an essential factor in their calculations, they have to find out suitable avenues for investment enabling them to earn a fair rate of interest with safety to their capital. The orthodox theory of investing exclusively in gilt-edged securities is being gradually exploded.

In 1927 at the Congress of Actuaries held in London, eminent economists like Prof. Westergaard and Mr. Hawtrey discussed this question at length. Eminent actuaries unfolded the dangers of exclusive investment in gilt-edged securities and drew attention to the desirability of investing a part of the funds in ordinary stocks and shares of industrial concerns

American insurance companies invest largely in ordinary stocks and shares. Exhaustive investigations have brought out the fact that in comparison with Government securities and debentures in industrial companies, ordinary industrial stocks and shares have come out better, showing both appreciation in value and a higher yield of interest.

British insurance companies being conservative, are still holding on to the gilt-edged security idea and are shy about investing any funds in industrial enterprises, or even when they do so, giving preference to debentures over shares. During the last War, British companies realised the folly of investing largely in Government securities, and since then some of them have been taking up debentures of investment trust companies.

Indian insurance companies generally follow in the footsteps of British concerns. Most of them invest largely in gilt-edged securities, though there are also one or two enterprising offices which have shown the way to other profitable lines of investment. But, in spite of the lessons of the War depreciation in gilt-edged securities, none of them as yet have taken to financing industries. It is surely obvious, however, that without the industrial development of the country, the people of the country will remain too poor to permit of the due expansion of insurance business. So that the insurance companies are but retarding their own progress by failing to support the country's industries. Moreover, as industrial concerns return a higher rate of interest than gilt-edged securities, exclusive investment in gilt-edged securities means a considerable loss to the investing company. At the London Session of the International

Congress of Actuaries, Mr. T. B. Macaulay strongly advocated the investment of a proportion of insurance funds in common stocks as a measure to combat the trouble of currency depreciation.

The risks attendant on the investment of funds in ordinary stocks and shares should not of course be overlooked, but they are not insuperable. Investment in ordinary shares calls for a specialised knowledge of industrial concerns. A prominent actuary has said "investments in individual companies must indeed be looked at more in the way we look at the underwriting of individual risks for insurance. Profit or loss in respect of a particular risk has no meaning: it is the experience of the group which counts". That is to say a satisfactory total output may be ensured by insurance companies by suitably distributing their investments over various kinds of industrial enterprises. With a company like the Prudential with over 200 million pounds of funds this should present little difficulty. But the average Indian insurance company with its much smaller resources cannot be expected to make such distribution in an adequate way.

The solution appears to us to be for Indian insurance companies to invest their funds in Indian joint stock banks. These banks, being thus placed in a position to deal with the pooled resources of several companies, will be competent to make a proper and safe distribution of their investments over different industrial enterprises. They will thereby earn a good rate of interest and so be able to give a fair return to their depositors as well as to keep their deposits safe. Such a policy would make the resources of insurance companies available for financing industries, without exposing them to the attendant risks.

We suggest below some of the ways in which the resources of insurance companies may be made available to banks:—

(1) Under the Indian Life Assurance Companies Act of 1912, insurance companies are required to deposit two lakhs of rupees with the Controller of Currency in Government securities. This law may be amended so as to allow of long term fixed deposits with some Indian bank serving the same purpose,—the amount not being withdrawable without the sanction of the Government of India. The present provision of law has two defects: firstly, the cheapest (and, therefore, the most depreciated) Government securities are purchased by the insurance companies, the market value of which remains much below two lakhs of rupees; and secondly, the average interest yield is correspondingly low. There is no depreciation in the case of a bank deposit and the interest is usually higher. 245 companies are transacting insurance business in India. If this suggestion is carried into effect, it will make 5 crores of rupees available to the Indian banks. It may be mentioned here that in Norway, Sweden and Esthonia the law compels foreign companies transacting insurance business to make heavy deposits with the national banks.

(2) A law should be enacted requiring all non-Indian companies to make a separate valuation in respect of their Indian business and to deposit a reasonable proportion of their

liabilities in some Indian banks as fixed deposits. Non-Indian insurance companies have invested over Rs. 30 crores in India. Most of these investments are in Government securities. If some portion of these funds could be diverted to Indian banks that would be of considerable help to them; at the same time it would make liquid assets available to Indian policy holders in case of any crisis. The insurance companies concerned will not suffer any loss as these investments will fetch a good rate of interest. Reference may be made to the case of Germany where foreign insurance companies are required to deposit in Germany at least 10 per cent. of their premium income. In Portugal and Denmark foreign insurance companies are required to deposit the full premium reserve appertaining to their life assurance business.

(3) Besides legislation, other measures may be devised whereby insurance companies may be voluntarily induced to place their resources, amounting in the case of Indian insurance companies to about 20 crores, at the disposal of banks. For instance if the larger banks issue debentures and the same are approved by Government as trust securities, they would be suitable for insurance companies.

Then again, Indian banks and insurance companies might co-operate to introduce the system of payment of premium by bankers' order which has recently been very popular in England. Insurance companies might waive the extra on instalments in view of the facility of collection through Banks which in their turn might undertake the work free of charge in view of the profit to be made out of the large funds thus placed at their disposal. And, further, convenient methods may be devised for the collection of insurance premiums by banks.

What has been said above would appear to indicate the following two points as subjects of fruitful discussion by the Banking Committee:—

(1) An inquiry into the possibilities of new legislation, facilitating the deposit of insurance funds in banks.

(2) An exploration of the different forms of co-operation which insurance companies and banks could enter into with mutual advantage.

No. 65.

Letter from the Honorary Secretary and Treasurer, the Indian Society of Accountants and Auditors, Bombay, dated the 12th June 1930.

On behalf of the Council of the Indian Society of Accountants and Auditors I have the honour to make this representation to your Committee on a few points which present themselves to auditors of banks and banking institutions in India.

2. My Council agrees that the primary function of any banking legislation in India should be to inspire confidence where it is lacking at present in the minds of the public, and specially in the minds of small investors, so that they may deposit freely in indigenous banking institutions which when conducted on liberal and enlightened principles, invariably conduce to the healthy economic and commercial growth of a nation. Keeping that objective in view my Council will now proceed to deal with some points in detail.

Use of the word " Bank ".

3. My Council suggests that only public limited companies which are established in India to carry on banking business, as laid down in their memoranda of associations, should be allowed to use the word " bank ". It follows, therefore, that any private limited company intending to do banking business in India should not be allowed to be registered in India as a " bank ". Likewise, an individual or a private partnership should be prohibited from using the words " banker ", " private banker ", or " bank " in the name of his or the firm's business.

Foreign Banks.

4. My Council is of opinion that in the best interests of the investing public in this country it is very desirable that there should be adequate control over all British and foreign banks doing business in India. That control could be effectively exercised by a Special Finance Committee empowered to issue licenses to banks desiring to start or to continue doing business in this country. In the opinion of my Council some of the requisite conditions on which such licenses may be issued should be that they should prepare in prescribed forms balance sheets and profit and loss accounts of their entire business in India and publish and file the same, together with the prescribed Form " G ", with the requisite authorities as is being done at present by indigenous joint stock banks. They should in addition file in India the annual balance sheets and revenue accounts of their whole establishments. These non-Indian banks should be compelled by law to register with the requisite authorities in India all mortgages and charges effected by them, either in India or in the land of their incorporation, and should maintain a register of all such mortgages and charges for the inspection of the public in India, as has to be done at present by all indigenous banks registered under the Indian Companies Act, 1913. Moreover, in the case of the winding up of any British or foreign banks doing business in India, Indian creditors and shareholders should have a priority, or a first charge, over the bank's assets in India without prejudice to their rights over the assets of the bank situated outside India.

Form "G".

5. My Council is of opinion that Form "G" which has to be exhibited by all banks in India under Section 136 of the Indian Companies Act, 1913, is defective in some essential respects, does not meet with the requirements of the public, and, therefore, needs substantial revision. It does not show a bank's liabilities on current accounts, call deposits, savings bank accounts, fixed deposits, etc., nor does it show liabilities which are secured fully or partly against the bank's assets. Regarding the assets of the bank it omits to show cash credits, loans, overdrafts, securities other than Government securities, and shares in joint stock companies quotable on the stock exchange. It appears that the main idea of exhibiting Form "G" at a conspicuous place at the head office and each of the branches of a bank is to show to the public the position of the bank in connection with its liquid assets on one hand, and liabilities at call or for fixed period on the other. If that be so, then the present Form hardly serves that purpose. My Council, therefore, suggests that Form "G" should be revised on the lines shown in appendix I herewith and that it should be made compulsory for all banks working in India, and that it should be prepared on the last day of every month and displayed as at present.

Profit and Loss Account.

6. My Council draws the attention of your Committee to the provisions of the new English Companies Act of 1929 under which it is now obligatory for a public limited company to publish and file at least once in every year its last audited profit and loss account with the Board of Trade in addition to the balance sheet. We suggest that a similar provision should also be made in connection with all banks working in India and that a *pro forma* profit and loss account should be prescribed by law, and that all banks should be compelled to follow it so far as is possible.

Form "F" (Balance Sheet).

7 (*a*) My Council is of opinion that the present Form "F" (for balance sheet) as prescribed under Section 132 of the Indian Companies Act, 1913, according to which banks registered in India have to publish their annual balance sheets needs substantial revision on the lines shown in appendix II herewith. It is suggested that all non-Indian banks working in India, whatever be the country of their incorporation, should be compelled to publish in the prescribed Form "F", audited balance sheets of their affairs in India as has been the case so far with the banks registered in India.

7 (*b*) My Council suggests that the present practice of publishing audited balance sheets of joint stock banks registered in India at least once in every financial year be continued and that all banks working in India, wherever registered, should be compelled to do likewise.

7 (*c*) In connection with the item of "debts considered good" appearing in the balance sheet it is very necessary that the various classes of the debts, and the nature of Securities against which they are secured, should be clearly stated on the balance sheet in a classified form as mentioned in appendix II above referred to.

7 (*d*) Loans granted by a bank to a limited company, any directors of which are also directors of the lending bank, should be separately shown. Similarly, loans granted to a limited company in which any of the banks' directors are members of the managing agents' firm should also be stated separately.

7 (*e*) Loans granted by a bank to its directors, managing director, manager, and secretary, including the sums repaid by them during the currency of a financial year, should be stated separately on the balance sheet with proper classifications. They should not be mixed up under one heading with the loans granted by the bank to its other officers and employees.

7 (*f*) Investments of a bank should be classified as (1) trustee securities, (2) shares in joint stock companies quoted on the stock exchange, (3) shares in subsidiary companies, (4) debentures, and (5) other scrips and papers. We suggest that it should be made obligatory by law that all investments of the kinds referred to in this paragraph, which are held by a bank, should be valued for the purposes of its balance sheet at or under market price, and that this fact should be clearly stated on the face of the balance sheet.

7 (*g*) We suggest that reserve and other funds created by a bank for specific purposes should be separately stated in the balance sheet and should not be lumped up under one heading.

7 (*h*) Liabilities of a bank on current accounts, savings bank accounts, fixed deposits accounts, as well as liabilities for bills accepted, and loans borrowed from other banks should also be stated separately and should not be mixed up under one heading.

A Special Statute.

8. Banks which are limited liability companies registered in India are at present governed by the law of joint stock companies in India. In the opinion of my Council that position might be improved upon with a view to regulate banking in India along more healthy and progressive lines. All banks working in India, whether registered in India or elsewhere, should be governed by a separate and comprehensive Act of the Indian legislature as is the case with insurance companies, co-operative societies, provident insurance societies, etc. In this connection we suggest that no bank in India should be allowed to start or carry on its business unless at least 25 per cent. of its subscribed capital is paid up.

Uncalled Capital.

9. My Council is of opinion that there should be a statutory obligation on all banks, whose head offices or subsidiaries are registered in India, that they shall not create any mortgage or charges on their uncalled capital, or any part thereof, at any time during their existence. Such a provision will go a long way to protect the interests of the creditors of the banks and would stimulate greater confidence in the minds of the investing public as to the position of the banks and banking institutions in the country.

System of Managing Agency.

10. My Council is of opinion that the system of managing agency as applied to joint stock banks in India is both unnecessary and undesirable. Almost all leading banks in India at present, Indian as well as non-Indian, are being run without being controlled by managing agents, and there is no reason why as a result of the experience gained of the system of managing agency in India, a statutory provision should not be made before it is too late prohibiting the advent of managing agents in the field of banking.

Auditors.

11. My Council is of opinion that any persons may be appointed as auditors of banks working in India whose names are enrolled on the Indian Register of Accountants, shortly to be opened under the authority of the Governor General in Council under the Indian Companies (Amendment) Act, 1930. My Council is strongly against the idea of restricting the selection of bank auditors to only a few among the qualified auditors who may be favoured by Government with some kind of special permits to conduct bank audits.

12. In this connection my Council draws your attention to the provisions of the Dominion of Canada Bank Act, 1923, under which auditors of Canadian banks are appointed every year by the shareholders on condition that no auditor or firm of auditors shall remain in office for more than two consecutive years. A similar provision in India might give more chance to the investing public to have control over auditors and might inspire greater confidence in the minds of the Indian public to invest their hoardings in banks. For the information of your Committee the relative clause of the Canadian Act is quoted hereunder:

> "The shareholders shall at each annual general meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank but if the same two persons or members respectively of the same two firms have been appointed for two years in succession to audit the affairs of any bank, one such person or any member of one such firm shall not be again appointed to audit the affairs of such bank during the period of two years next following the term for which he was last appointed."

My Council thinks that a provision in India on similar lines to the Canadian law might be considered with advantage by your Committee.

13. My Council is of opinion that banks should be prohibited by law from granting loans to their auditors either jointly with other persons or severally, on short or long term, with or without security. Looking to the position occupied by a bank's auditors it is imperative that such advances made either directly or indirectly should be prohibited by law on principles of public policy. Such advances are prohibited by statutes in many countries, *e.g.*, in the State of Victoria (Australia) and in Canada by their respective Companies Act of 1915 and the Bank Act of 1923. For the information of your Committee we quote hereunder Section 120 (4) of the Companies Act, 1915, of the State of Victoria (Australia):

> "No person shall be competent to be appointed or act as auditor who is or becomes indebted to the company. If any person after being appointed an auditor becomes indebted to the company his office shall thereupon become vacant."

Indemnity Clause, etc.

14. My Council notes that of late there is an increasing tendency to insert an indemnity clause in the articles of association of joint stock companies in India relieving their directors and auditors from all liability for negligence in discharge of their duties except on the grounds of wilful default or dishonesty. We suggest that, as has been done under the New English Companies Act, 1929, such a clause be declared void in the case of banks in India. We also suggest that the auditors of a bank should be allowed to attend all general meetings of the bank without any hindrance.

Insolvent Directors and Officers.

15. We would suggest that there should be a legal prohibition against anybody who has become a bankrupt, or filed a schedule in bankruptcy from being allowed to be a director, managing director, or manager of a bank working in India. We note that a somewhat similar recommendation was made in the Report of the "Greene Committee" (paragraphs 56 and 57) that was appointed to revise the old English Companies Act, 1908.

Loans to Directors and Officers.

16. My Council is of opinion that advances to directors of a bank either jointly or severally without full security should be prohibited. The amount of all loans advanced to or guaranteed by a director (and any amounts repaid) during the period, and the nature and amount of security given by him to cover the loans should be clearly stated in the balance sheet. Moreover, any loan granted to a director should be authorised by the Board of Directors of the bank. If, however, for any reason your Committee decides not to recommend a statutory prohibition against the grant of loans to directors of a bank without full security, then it should be provided that such loans or advances given to a director (including loans or advances repaid) are clearly and separately stated in the balance sheet as shown in appendix II herewith.

17. My Council suggests that loans granted to or guaranteed by other officers or employees of a bank of whatever amount should be authorised by the Board of Directors and should be clearly and separately stated in the balance sheet as shown in appendix II herewith.

Statements of the affairs of a bank.

18. My Council suggests that in the case of all banks in India there should be a statutory provision on the lines of Section 54 of the Dominion of Canada Bank Act, 1923, which runs as follows :—

> "Directors shall also submit to the shareholders such further statements of the affairs of the banks as the shareholders require by bye-law passed at the annual general meeting or at any special general meeting of the shareholders called for the purpose."

Winding up.

19. We are of opinion that in the case of liquidation of a bank in India there should be a statutory provision for the appointment of a Committee of Inspection on the lines similar to the English Companies Act, 1908 and 1929. Such provision would inspire confidence among the creditors of a bank and serve as a wholesome deterrent on the directors, officers and liquidators of banks in general. Moreover, in a country like India where depositors and shareholders are not generally so well-informed as in the countries of the West, and have little effective control over their directors and officers, it is all the more necessary that a provision of this kind should be incorporated in the statutes so that the interests of investors may be looked after by their own representatives during the conduct of liquidation.

20. My Council is further of opinion that no person who was a director, auditor, officer or employee of a bank prior to its compulsory liquidation, or who holds any other place of profit under it, should be allowed to be a liquidator of the bank.

21. The Council would like to draw the attention of your Committee to a fundamental change of principles that has taken place in England recently under the English Companies Act, 1929, under the provisions of which the conduct of liquidation of any company is mainly vested in the hands of the creditors of the company on certain conditions. In the interests of the investing public who have a greater stake in the liquidation of a bank than its shareholders such a practice should also be followed with advantage in India.

22. Regarding the powers of the liquidators we have to invite the attention of your Committee to the dangerous practice that is sometimes followed of laying down certain conditions in the resolutions appointing the liquidators in voluntary liquidations which would deprive the liquidators of some of their powers generally vested in them by law. In a recent Indian case before the Privy Council this unhealthy practice came under criticisms of their Lordships. My Council recommends that such restrictions on the rights and liberties and duties of liquidators should be prohibited in the best interests of the public.

Restrictions on Banks' Business.

23. Regarding the business of a bank my Council suggests that banks should not be allowed to advance any loans on the security of their own shares as this may lead to the banks getting direct to indirect control over their shares.

My Council further recommends that no bank should be allowed to hold any real or immovable property except bank premises for its own use for more than a maximum period of years to be prescribed by law. In the opinion of my Council such a statutory provision would effectively prevent banks in India from locking up for an extended period large sums of money in doing business in landed properties which otherwise would have found their rightful place in financing the trade, commerce and industries of the country. In this connection we may add that in Canada a similar provision has been enacted under the Dominion of Canada Bank Act of 1923 and it runs as hereunder :

> "No bank shall hold any real or immovable property, howsoever acquired, except such as is required for its own use, for any period exceeding seven years from the date of the acquisition thereof,

or any extension of such period as in this Section provided, and such property shall be absolutely sold or disposed of within such period, as the case may be, so that the bank shall no longer retain any interest therein by way of security.

The Treasury Board may direct that the time for the sale or disposal of any such real or immovable property shall be extended for a further period or periods, not to exceed five years.

The whole period during which the bank may so hold such property under the foregoing provisions of this Section shall not exceed twelve years from the date of the acquisition thereof."

24. In conclusion I may add that my Council has not attempted to deal with all questions set forth in the questionnaire of your Committee but, as mentioned before, has only touched upon those points, regarding the accounts, audit, and organisation of banks in India, that present themselves frequently to the notice of auditors.

APPENDIX I.

PROPOSED FORM " G " FOR BANKS.

1. The share capital of the Bank is Rs. divided into shares of Rs. each.
2. The number of shares issued is . Calls to the amount of Rs. per share have been made, under which the sum of Rs. has been received.
3. Uncalled liability of the shareholders on shares subscribed is Rs. at Rs. per share.
4. The liabilities of the Bank on were :—

	Rs.
(*a*) On Current Accounts, Call Deposits, and Savings Bank Accounts	
(*b*) Fixed Deposits	
(*c*) Due to Banks, Agents and Correspondents . .	
(*d*) Due under the Security of the whole of the assets shown below	
(*e*) Due under the Security of the part of assets shown below	
(*f*) Bills payable and other sums due by the bank . .	

5. The Assets of the Bank on were :—

(*a*) Cash in hand, at Banks, and bullion on hand . .	
(*b*) Government and Trustee Securities at or below market price	
(*c*) Shares in joint stock companies quoted on the Stock Exchange at or below market price . . .	
(*d*) Other Securities and papers	
(*e*) Cash Credits, Loans and Overdrafts	
(*f*) Bills discounted less rebate thereon	

APPENDIX II.

Proposed Form " F " for Banks.

Capital and Liabilities.	Rs.	Rs.	Property and Assets.	
Capital :—			Cash :—	
Authorised Capital shares of Rs. each . . .			Cash in hand	
Issued Capital shares of Rs. each . . .			Cash at Bankers . . .	
Subscribed Capital shares of Rs. each			Deposits at Call and Short Notice	
Amount called up at Rs. per share.			Bullion in hand . . .	
Less Calls unpaid				
			Investments :—	
			Trustee or Gilt-edged Securities .	
			Debentures of joint stock companies	
			Shares in joint stock companies quoted on the Stock Exchange (at cost or market price, or where this is not possible, on some other basis which must be specified .	
Funds :—				
Reserve Fund			Shares in subsidiary Companies .	
Contingency Fund			Other scrips and papers .	
Bad and Doubtful Debts Reserve . .				
Investments Fluctuation Reserve . .			Loans and other Advances :—	
Buildings Depreciation Fund .			Cash Credits and Demand Advances . . .	
Employees' Provident Fund Rs.			Loans	
Less Investments for the Provident Fund Rs.			Bills Discounted	
(Stating kinds and mode of valuation of the investments).				
Carried over .			Carried over .	

Capital and Liabilities.	Rs.	Rs.
Brought forward .		
Liabilities :—		
Current and Savings Bank Deposits .		
Fixed Deposits		
Debts due to Banks, Agents, etc., fully secured against Securities as *per contra*		
(Stating the nature of Securities.)		
Debts due to Banks, Agents, etc., unsecured		
Bills payable		
Acceptances for Customers as *per contra*		
Bills for Collection being Bills receivable as *per contra*		
Sundry Creditors		
Unclaimed Dividends		
Rebate on Bills Discounted . . .		
Profit and Loss Account :— . . .		

Property and Assets.	
Brought forward .	
Particulars required by Act VII of 1913 :—	
(1) Debts considered good which are secured against the following securities :—	
(*a*) Government Loans, Bonds, Other Trustee or Gilt-edged Securities . . .	
(*b*) Debentures of joint stock companies . . .	
(*c*) Shares in joint stock companies quoted on the Stock Exchange . .	
(*d*) Other scrips and papers	
(*e*) Immovable property .	
(2) Debts considered good secured by personal liability of one or more parties as under :— . . .	
(*a*) Debts due on Bills Discounted . .	
(*b*) Debts due on joint and several Pro-Notes .	
(*c*) Debts due on temporary Overdrafts, Demand Cash Credits, Personal Security, etc.	
(3) Debts due or guaranteed by Directors of the Banks personally or jointly with other persons and fully secured	
(4) Debts due or guaranteed by Directors of the Bank personally without Security .	

Contingent Liabilities . . . .

(5) Debts due or guaranteed by Directors of the Bank jointly with other persons and remaining unsecured . .

(6) Debts due by joint stock companies guaranteed by their Managing Agents, a director of the bank being a member of the firm of Managing Agents . .

(7) Debts due or guaranteed by Auditors of the bank personally or jointly with other persons either with or without Security . . . *Nil.*

(8) Debts due or guaranteed by officers of the Bank other than Directors and Auditors personally or jointly with other persons, and remaining unsecured . . .

(9) Debts due by officers of the Bank other than Directors and Auditors personally or jointly with other persons, and fully secured . .

Debts considered bad or doubtful . .

Bills Receivable as *per contra* and Treasury Bills . . .

Customers for Acceptances *per contra* . . . .

Land and Buildings (at cost) .

Less Depreciation written off .

Furniture and Fixtures (at cost) *Less* Depreciation written off.

Other Assets :—

No. 66.

Letter from the Secretary, Indian Tea Planters' Association, Jalpaiguri, No. 55—30, dated 22nd February 1930.

I have the honour to forward herewith our Association's note on tea finance of Jalpaiguri, Duars and Terai gardens for your Committee's kind information.

NOTE ON TEA FINANCE OF JALPAIGURI CONCERNS.

Capital and other sources.—Most of the Indian owned Jalpaiguri Duars gardens are limited liability companies with a share capital. There are a few private gardens also owned by private proprietors. For companies started during recent years an admission fee per each share is generally charged on the shareholders for an amount varying from 1/5th to the full face value of the share. This admission fee is generally treated as a sort of a loan and is generally repaid before distribution of any dividend by the company but it does not bear any interest. The admission fees are thus refunded to the members before any dividend is declared and paid. The idea is to make the capital of the company not too high and the admission fees are utilised to meet the initial capital expenditure such as price of land, etc. The admission fee is realised along with the application money and the share money is usually called in several instalments of small amounts spread over 2 years or more, in a few instances some companies have sold a limited number of shares to the public at suitable premiums.

Finance of new gardens.—As the capital is never big the admission fees and the amount received on capital account cannot run the property very long and in many cases after a period of say two years or so outside finance is required for the development of the property. These finances are usually obtained from the managing agents, money-lenders and other capitalists on the mortgage of the gardens and appurtenances and unpaid call moneys and other assets and properties of the company and the amount is borrowed for the period of development say from 7 to 10 years at a rate of interest varying from 9 per cent. to 15 per cent. Besides the usual interest, commission on the sale proceeds of tea varying from 2½ per cent. to 7½ per cent. has to be paid to the agents or financiers. Usually from the 4th year the crop is available from the plantations and additional finances are then obtained on the hypothecation of crop from the managing agents, stock banks, or the firms of tea brokers on the guarantee of the managing agents. The usual rate of interest charged for such finances is from 1 per cent. to 2 per cent. over the bank rate with a minimum of 7 per cent. to 8 per cent. The tea brokers are to be paid brokerage at 1 per cent. for selling the teas hypothecated and the managing agents charge commission varying from 2½ per cent. to 7½ per cent. Frequently when the requisite finances are not available or cannot be promptly obtained, the promoters and the directors have to borrow from other sources either banks or loan offices or Marwari merchants or other money-lenders on their own personal liability to finance the garden. In normal years, *i.e.*, when the price of tea is satisfactory and the companies

make profits there is not much difficulty in getting such loans but the resources and financial prosperity of the people of Jalpaiguri depend mostly on tea, and when in a lean year prices of tea are low very, great difficulty is experienced in obtaining such loans; and when loans are available, a very high rate of interest even up to 24 per cent. or more has to be paid.

Finances of old established gardens.—Some of the old gardens have got some reserve funds which are in some cases partly utilised in meeting the expenditure for the first few months of the season. But the usual finance is generally obtained on the hypothecation of crop of the season and ordinarily an advance from 60 per cent. and upwards of the estimated revenue of the season is obtained at a rate of interest at 1 per cent. over bank rate with a minimum of 7 per cent. to 8 per cent. Some Indian banks (joint stock companies) and the Marwari money-lenders and the local financiers charge higher rates.. The big joint stock banks of Calcutta including the Imperial Bank of India often entertain such proposals on the guarantee of the tea brokers through whom the teas of such Indian concerns are sold in Calcutta. These brokers have to be paid brokerage commission, at 1 per cent. over and above all other charges such as godown charges, sampling charges, sale charges, tea cess, etc. This debt is paid off by and by from the sale proceeds of teas and the surplus is credited to the accounts of the company.

The Imperial Bank of India does not as a matter of fact finance the companies directly on hypothecation of tea crop unlike other joint stock banks and they require a guarantor usually a firm of repute of tea brokers or European firm of managing agents. The inevitable result of which is that most of the Indian concerns do not get finance from the Imperial Bank. The local banks of Jalpaiguri advance money direct to the concerns without any such guarantor on hypothecation of crop at interest varying from 9 per cent. to 10½ per cent. As the finances of the local Jalpaiguri Banking and Trading Corporation, Ltd., the Jalpaiguri Lakmi Bank, Ltd., and other local banks are rather limited, they are rather handicapped during periods of depression in tea market when the amounts of deposits become less. In lean years old concerns who have got some reserve can somehow tide over and meet their running expenses without perhaps very much difficulty but the new concerns are always hard hit as their programme of development has to be cut down and the time of declaring dividend or making profits recedes further.

In other words, if a new garden expects to be self-supporting in say 6 to 7 years' time normally, it has to wait another 3 or 4 years or even more because it has not been able to make the necessary expenses for scientific manuring, the supply of costly machinery and the upkeep of sufficient labour force. In extreme cases such new concerns have no other alternative than to wind up. The new infant Indian tea and other mofussil concerns can be certainly protected against these difficulties and ruin in bad years when they cannot get sufficient money and with timely help they can easily become self-supporting and prosper immensely if the Imperial Bank can be induced to advance finances to those concerns of course with the local banks to support them as additional guarantors for due repayment of finances. The Imperial Bank can help these new indigenous industries in another way also. The local banks and loan offices generally advance money to tea gardens and other indigenous industries on mortgage of garden and factory and all other lands and appurtenances and hypothecation of crop and assets and uncalled share moneys. The Imperial Bank

can also be persuaded to finance these local banks or loan offices on the security by assignment of these mortgage deeds say up to 90 per cent. or even up to 80 per cent. of the secured amount of the loan finance, with additional guarantee by the said local bank or loan office for due repayment. The Imperial Bank thereby runs no risk for those advances but these local banks and loan offices obtain great help and facility to help with these finances larger number of concerns, with this financial help from the Imperial Bank. Of course in such a case the Imperial Bank must make due enquiries about the sufficiency and soundness of the securities and may advance only when it is fully satisfied about the same.

At present the Imperial Bank finances gardens on hypothecation of crop system on the guarantee of any of the Calcutta tea brokers' firms only, *viz.*:—

A. W. Figgis & Co.,
W. S. Cresswell & Co.,
Carrit Morgan & Co.,
J. Thomas & Co.

And the Imperial Bank does not as a rule finance on crop hypothecation on the guarantee of the local banks or local managing agents or local agents.

It would be a great help to the industry if the Imperial Bank can be induced to take up finances of gardens on hypothecation of crop and mortgage of garden and assets system with an additional guarantee from the local banks or local managing agents.

We understand that a few years ago the premier local bank of Jalpaiguri, *viz.*:—the Jalpaiguri Banking and Trading Corporation, Ltd., was prepared to stand guarantor for some local Indian tea concerns for finances to the Imperial Bank at Jalpaiguri but the latter refused to finance those gardens on that condition.

We think the Imperial Bank of India Act provides for financing of tea gardens on hypothecation of crop system. But we are not sure whether the Imperial Bank is allowed under the present enactment to advance moneys on mortgage of tea gardens and lands and appurtenances and other assets, etc. If the present enactment does not cover this, then Government may be approached for amending the enactment.

There is a strong rumour prevalent in Jalpaiguri and also in Calcutta circles that there has been a sort of understanding amongst Calcutta banks that none of them would finance or in any way help any mofussil bank or loan office which might have taken up financing of any Indian tea concerns or are helping with finances for expansion of business of other sorts of Indian concerns. Due confidential enquiries should be made to ascertain if it is a fact, and if so, due steps should be taken to discourage and prevent any such course of action by the Calcutta banks.

Control of the industry.—At present the Indian industry is practically controlled by a few firms, of brokers, agents and buyers. The local buying of tea has been concentrated in the hands of a few people such as (Brookbonds, Harrison and Crossfields, and Liptons, etc.) and they, therefore, control prices effectively. Even though during the present depressing condition of the tea trade we are selling our teas practically at the cost of production, the consumers do not much benefit thereby as the market

retail prices have not practically fallen. Distribution of tea is mainly controlled by these firms of buyers and they practically control and dictate the trade. This ruin of buyers has become possible because large tracts of land have come under tea principally in Java and Sumatra and the buyers exploit this bogy of over-production but the world's consumption is also increasing and would increase more if the retail prices were cheaper. This is a great problem.

No. 67.

Letter from the Karachi Indian Merchants' Association, Buyers and Shippers Chamber, dated 25th August 1930.

Our Committees have directed us to offer the following observations for your Committee's consideration. We had submitted a detailed memorandum to the Provincial Banking Enquiry Committee of Bombay, and herewith enclose the same for your reference (not printed) as we propose to refer only to those questions here, which we have not directly discussed in the enclosed memorandum.

The main purpose, we take it, of your enquiry is to provide a new line of approach for the revival of the Reserve Bank scheme and incidentally to instruct the public opinion as to the requirements of the country in matters of banking. We, however, find that your questionnaire deals severally with the following problems, *viz.* :—

1. Industrial Banks and credit facilities for India's main industries.
2. Financing of foreign trade.
3. Regulation of banking.
4. Banking education.
5. General Banking organisation and money market.

We would take these questions one by one and summarily discuss their aspects, as they strike to our Committees as important.

1. *Industrial Banks and credit facilities for India's main industries.*— Industrialisation has made very little progress in the country and the open door policy of the free imports of subsidised and, therefore, cheap foreign manufactures is responsible for it. In spite of (a thoroughly watered) protection, initiated by the Government of India in solitary instances, the industries in India are neither large nor varied. This accounts for the curious phenomena of large balances often lying unemployed with Indian banks even though joint stock banking is in its infancy in India. Our Committees, therefore, feel that the progress of industries is vital to the progress of banking and hence have no hesitation to aver that a thoroughly protective policy for Indian industries is a first step towards initiating sound banking progress in India.

Industrial banks should be started in all provinces both on co-operative as well as other lines. These should be helped by Government by way of free deposits, etc., and should have all opportunities to utilise Government machinery like a Statistical Department for safeguarding their operations. If necessary, a certain percentage of profits should be guaranteed to the industrial banks, as was done elsewhere.

These banks should specialise in :—

1. Advancing long term loans to industrial concerns on the security of their business and/or of assets.

2. Promoting industrial enterprises by partly underwriting capital issue or by negotiating loans for indigenous industries.

These banks should by right have a voice in the directorate of the industries they finance.

These banks should abstain from any operations which are alien to their main functions and their directorate should keep away from speculative enterprises. The Grossbanken of Germany has been described as a

model by the Industrial Commission and so is the banking in Japan. The industrial banks in India should, therefore, have the main features of both these, adapted to local needs.

We will refer to credit facilities under the last section.

2. *Financing of foreign trade.*—This is mainly done by the foreign exchange banks because the foreign trade is mainly in the hands of the foreigners.

These banks also participate in inland trade as in the case of piece-goods trade of Delhi and the leather trade of Cawnpore. The operations of these banks, apart from facilitating export of raw produce from England, result in the transfer of a large amount of funds to London by purchase of Indian export bills.

This necessitates another set of operations for returning their funds to India where requisite. This is effected only by transfer since the Government of India, have started purchasing sterling bills.

The import trade is financed, to an even greater extent than the export trade, by these foreign banks, who, as a rule, do not rediscount the import bills in India. As is pointed out by Professor Keynes (Indian Currency and Exchange, page 212) there is *prima facie* some danger to the stability of the Indian financial system in the fact that its money market is largely financed by funds raised, not permanently, but by short periods in a distant foreign centre.

During recent years, however, the exchange banks have found an increasing volume of funds in India itself. A glance at the following table will prove this conclusively.

TABLE ONE.

Year.	No. of Exchange Banks.	Deposits in lakhs of Rupees.
1817	3	52
1819	5	753
1900	8	1,050
1910	11	2,479
1913	12	3,103
1918	13	6,185
1920	15	7,480
1921	17	7,519
1923	19	6,844
1924	18	7,063
1925	18	7,054
1926	18	7,154

It will be seen that these banks are evidently enjoying considerable confidence of the depositing public, which confidence, however, is really the result of the monopoly of foreign trade, both export and import which itself is mainly in the hands of foreign houses. The prosperity of these banks, specially of those which are not merely agencies of large foreign concerns but are doing considerable business in India and outside India with Indian money, can be gauged from the following table.

TABLE TWO.

No. of Banks.	Paid up Capital (£1,000).	Reserve and rest (£1,000).	Deposits.		Cash Balances.	
			Out of India (£1,000).	In India (Rs. 1,000)	Out of India (£1,000).	In India (Rs. 1,000.)
*5	9,644	10,471	73,533	5,10,724	14,234	73,299
13	67,769	60,119	8,96,353	2,04,698	1,22,052	33,985

It will be seen that the banks* keep in India a balance that is out of proportion to the deposits in comparison with both these items under the 'out of India' columns.

Our Committees would strongly advocate restriction against the operations of these foreign banks. The foreign domination of export and import trade is mainly due to the operations of these banks, just as the prosperity of these banks is mainly because of the foreign dominations of the export and import trade.

A writer in the Indian Review of Madras (February 1923) states *inter alia* regarding the need of Indian exchange banks.—

> "One main reason why the foreign trade of India is in the hands of foreigners and not of Indians is that the latter possess no exchange banks of their own. The foreign exchange banks which at present do business in India, through their branches established here finance foreign firms only and foreign businessmen and were made for that purpose alone, if any Indian firm happened to get the benefit of them, it is only after the foreign firms' wants are satisfied. The foreign insurance companies in India, are said, on the same authority, 'to get indirect help and support which are the very breath of their business from the foreign exchange banks, in that the latter recognised insurance policies with the former without objections whereas if the insurance company happens to be an Indian concern, objections are always raised' ".

*NOTE.—Banks doing business on big scales in India, not being mere agencies of foreign houses.

The following appeared in 'The Indian Insurance' for September 1928:—

> "It has been the experience of some of the Indian insurance companies, that when their policies were handed over by parties, non-Indian banks have either refused to accept them or have, in many instances, given hints to the customer that all future policies should be taken from British companies."

The Indian joint stock banks having no access to the London money market have not engaged, till date, in the exchange business and our Committees recommend that until Indian banks find it possible to operate these marts, the Government of India should convert the Imperial Bank of India into an exchange bank and do all the transactions through that medium. This will give an impetus to Indian exchange banking by training the personnel required for such enterprise. The Imperial Bank of India should be made to function as the necessary training ground for the purpose.

3. *Regulation of Banking and (5) General Banking Organisation.*—Our Committees are in favour of audit and examination of bank accounts by persons duly qualified and certified by the Institute of Bankers. We also favour registration of all banking concerns that are limited or have more than a certain number of partners, including even foreign banks doing business in India. We should also suggest that the term 'bank' should be restricted to joint stock companies of shareholders with a capital not under five lakhs of rupees, unless such concerns are co-operative.

Regarding bank failures in India our Committees feel that even though failures have sometimes been due to frauds, etc., the reasons which are mainly behind bank failures everywhere, including Europe and America, are two noted factors: undue panic and inadequacy of outside help. The Indian joint stock banks are so few and far between, with naturally limited resources, that in times of undue stress they are hardly able to maintain their own position against heavy odds. The non-Indian banks have in all such cases played a waiting game. Unless Government, the Imperial Bank, and the foreign banks are under a legal or a moral obligation to stem the rush on Indian banks, when such rush is unjustified, the position of Indian banks would be ill-guarded at best.

Another recommendation which we have already submitted to the Provincial Banking Committee may be repeated here. There should be an Act to prevent vexatious complaints from creating ill-feeling against Indian banks.

The position of the joint stock banks would be much better if the Imperial Bank was a Central Bank of the English or the Continental type. In that case, it would be a Bankers' Bank, instead of being a competing bank itself. The Imperial Bank's aim was to develop the banking habit in the country and to act as the custodian of the national balances. These balances could be very well utilized to assist Indian banking, Indian Industries, and Indian trade, if the Imperial Bank was a Bankers' Bank.

The Imperial Bank being made to open hundred branches under Charter has resulted in its unduly competing with the Indian joint stock

banks and proving a material handicap to their progress at several centres. According to the Royal Commission on Indian Currency and Finance, Minutes of Evidence, 1926, Vol. IV, page 479, thirty-two branches were working at a profit at that time and fifty-six branches were working at a loss. It is possible that the position is somewhat better to-day, but the capital that these branches have succeeded in attracting is so much loss to the Indian joint stock banks.

TABLE THREE.

	Rs. Crores.
Cash balance of current accounts of all new branches	3·10
Savings Banks balance	1·68
Fixed Deposits	3·57

NOTE.—From evidence given by Mr. Norman Murray to the above Commission.

If the above statement is read in the light of Table Four given below, our contention would appear to be sound.

TABLE FOUR.

Provinces.	No. of branches of the Imperial Bank.	No. of Joint Stock Banks.
Assam	2	4
Bihar and Orissa	9	26
Bengal	15	61
Bombay	23	49
Central Provinces	10	14
Madras	33	107
Punjab	19	121
United Provinces	23	87

NOTE.—Partly from the report of the Controller of the Currency, 1926-27.

The competition of the Imperial Bank with the Indian banks has often resulted in reduced money rates. It may be pointed out, however, that in normal times the Indian joint stock banks have had large borrowings from the Imperial Bank, often the borrowings being double than their balances

with the Imperial Bank. The evidence produced before the Currency Commission gives the following table on page 479, Volume IV.

TABLE FIVE.

Month.	Balances.	Borrowings.
1924—	Rs. Crores.	Rs. Crores.
February	4¼—7¼	8—9½
March	3¼—6	9¼—9¾
April	4—6¾	7¾—9½
May	4¼—6	6¾—8
June	4¼—7	4¼—7¼
July	4¾—7¼	3—5¾
1925—		
February	4¼—7¾	3½—5
March	5½—8	4¾—6
April	4¾—7	4¾—5¼
May	4—5¾	3½—5¼

This table is also interesting from the view point of accommodation of credit changing in volume during the two "seasons", slack and busy, about which we would write later. The above figures, however, include borrowings by foreign banks as well. According to the Evidence, Volume II, page 360, the relative position on this score of the different banks in March 1925 was as follows:—

TABLE SIX.

	Advances. Rs.	Deposits. Rs.
Indian Banks	360 lakhs.	185 lakhs.
Other Banks	223 ,,	576 ,,

TABLE SIX (*a*).

—	No.	Capital and Reserve.	Deposits.
Imperial Bank		10·55	83·29
Exchange Banks	18	13,831*	70·54
Joint Stock Banks	74	11·78	57·90

* In foreign countries.

NOTE.—Out of 74 Indian Joint Stock Banks 50 per cent. of columns 2 and 3 above belong to 4 banks only. (Tarapada Das Gupta.)

This incidentally shows the needy circumstances of Indian banks, partly due, no doubt, to the fact that in no less than a hundred places they compete often unsuccessfully for the deposits of which the Imperial Bank alone attracts over eight crores as shown above. We may sum this section by pointing out that Indian banking compares very poorly even with, say, Irish banking.

The following table will amply prove how impoverished is the condition of the Indian joint stock banking.

TABLE SEVEN.

In millions of £s.

Banks.	Capital and Reserve.	Deposits.	Bank Clearing.
Great Britain	201	2,417	40,437
Ireland	100	1,000	20,000
India	16	158	1,262

NOTE.—The figures are deduced from the Construction of Professor Jain (Indigeneous banking in India, page 174) Indian figures, besides, include the deposits of the exchange banks doing business in India and are converted into sterling @ 1/6*d.* ratio though they are only for one year 1925-26. The relative position is fairly true for all times.

4. *Banking Education and Banking Organisation.*—There are no facilities for practical training in banking. All the banks, including the exchange banks, when registered in India should be obliged to provide suitable training to Indians. The Institute of Bankers can certainly do very useful work in this direction. The indigenous bankers get their training from early participation in the transactions of the house. There is, however, neither method nor continuity in this. A suitable scheme of education in this line should be formulated by the Indian Institute of Bankers.

The genius of Indian banking, though not yet adapted to modern methods, is yet of great virility and expansiveness. Even to-day on a rough estimate, there are thousands of houses in India doing the business of banking, including acceptance of deposits.

If the operations of these shroffs and modern banks are correlated, instead of lying outside the influence of each other, banking in India would develop at a steady pace. The ruin of the indigenous banker is not so much due to these antique methods as to the factors which have made all banking impossible in India. Before the days of the agency houses of Calcutta and the succeeding joint stock banks, dating from the middle of the last century, the indigenous bankers were the only bankers to the East India Company, and weilded dominant influence in the State finances as such.

Even to-day their operations comprise large scale operations. According to one authority they amount to nothing less than a 100 crores of rupees annually (B. T. Thakur: Organisation of Indian Banking, P. 44). Their progress is retarded for want of correlation between them and the modern joint stock banks.

The new institutions that have sprung up since 1850, from the very beginning showed marked aversion to forming a liaison with the indigenous banker. This aversion has reached a climax where all foreign banks and banks under foreign influence, often aided by official supporters, have in many cases attempted to thwart the progress even of Indian joint stock banks. A bitter complaint was made to the Indian Industrial Commission by an eminent pioneer of Indian banking, during the course of which he stated:—

"A conspiracy is set up with the determined object of destroying the banking of the Punjab in which officials and non-officials joined and made every possible effort and took every possible measure to destroy........... they did not want Indian banking to flourish...............".

I also know that an application was made by an European to an Anglo-Indian bank for a loan and he was first asked to state that this loan would not benefit any Indian in any form or shape or any existing bank in any form or shape, and he was told that if he assured them of that, the loan would be negotiated, otherwise not (Indian Industrial Commission, Minutes of Evidence, Vol. III, page 481).

Our Committees feel that in view of these and similar facts, the progress of indigenous banking, both the old and the new, would only follow upon restrictions on the free operations of foreign banks in India.

We would now refer to the organisation of clearing houses mentioned by you under V-3. The clearing houses in England itself date only from the last quarter of the 18th century and developed from the practice of the bankers' clerks adjusting innumerable cross claims during the lunch hour. To-day in all the big cities in India, clearing houses exist and at places where they do not, cheques issued on the Imperial Bank against balances maintained, serve the purpose. The use of cheques, however, is still confined to urban areas and a further development of the cheque habit, even in the rural areas and for even domestic purposes, would give a great impetus to the banking habit. The following figures, however, show that the cheque habit is on the increase.

TABLE EIGHT.

Clearing House Returns.

Total Amount of Cheques cleared in Crores of Rupees.

——	Amount.	Year.	Amount.
Year— 1900	212	1921	2,021
1905	303	1922	2,022
1910	465	1923	1,876
1913	615	1924	1,777
1918	1,395	1925	1,769
1920	3,149	1926	1,591

NOTE.—From tables relating to banks in India 1927.

Reference has already been made to the division of the year into slack and busy seasons. The busy season is supposed to be from October to March and the slack season from April to September. In Table five, it may be seen that the amounts under balances and borrowings decrease during certain months which coincide with the main portion of the busy season. This phenomenon is really very curious. It is also noted that the Government of India themselves keep smaller balances with the Imperial Bank when the trade is brisk than when the trade is slack. The following table clearly proves this statement.

TABLE NINE.

Busy Season from October to March.

Months.	1925-26.	1926-27.	1927-28.	1928-29.	1929-30.
October	740	1,408	876	632	1,549
November	674	916	966	769	1,400
December	526	633	704	713	705
January	990	1,344	788	806	1,736
February	1,386	2,016	732	1,029	1,826
March	2,146	2,462	603	560	1,739
April	2,709	1,306	1,454	714	1,009
May	2,843	1,483	1,186	663	859
June	2,226	3,230	981	790	2,065
July	2,454	3,629	1,558	620	1,307
August	1,962	3,515	1,574	1,692	1,244
September	996	2,023	1,256	576	2,050

NOTE.—In lakhs of Rupees.

If the currency of India was naturally elastic and capable of automatic expansion, the above phenomenon would at least bear a semblance of method. Our Committees, therefore, feel that the Government balance with the Imperial Bank should be much larger during busy seasons.

Regarding bank rate, we have to point out that the range of fluctuations of this rate in India, which is often 3 to 4 per cent., is very wide, wider than most other countries ! The raising of the rate should be on very gradual points and not by a whole integer as is usually done in India. The bank rate should not be linked up with the seasons. This linking up brings about frequent changes in the rates. America is as seasonal a country, or is even more seasonal than India, but the Federal Reserve Bank does not change the rate as often.

The raising of the bank rate in India synchronises with the advent of the export season when the maximum of ample and cheap credit ought to be found. The case is otherwise in India. The fluctuations of the rate in

India would appear utterly uneconomic, if it is remembered that in France since 1928 the bank rate has remained practically steady (at 3½ per cent. lower to 3 per cent. recently). The increase in the bank rate in India only means insufficient supply of credit. It does not mean attraction of outside money into India.

The following table would conclusively prove that one of the reasons of the fluctuations in bank rate is the depletion or otherwise of the amount in cash balances, and incidentally shows the effects of such fluctuations on the bazar bill rates.

TABLE TEN.

1st of	Cash Balance in lacs of Rupees.	Bank Rate per cent.	Imperial Bank Hundi rate per cent.	Bazar Bill Rate.	
				Bombay, per cent.	Calcutta, per cent.
1927—					
April	1,531	7	7	10⅛	10—12
May	1,494	7	7	10⅛	10—11
June	1,895	7	7	10½	10—11
July	3,236	5	5	7⅛	9—0
August	3,222	4	4	6¾	9—0
September	3,037	4	4	6¾	9—0
October	2,809	5	5	7⅛	9—10
November	2,470	5	5	7½	8—9
December	1,096	5	5	8⅝	8—9
1928—					
January	1,368	7	7	9¾	10—10⅛
February	1,408	7	7	10⅛	10—11
March	1,167	7	7	9¾	10—11

Taking earlier years, however, the fluctuations in rates have been still greater as will be seen from the following table:—

TABLE ELEVEN.

Bank Rate.

—	1922-23.	1923-24.	1924-25.
Maximum	8	9	9
Minimum	4		4
Average	5·91	6·11	6·24

Another reason that necessitates maintenance of high rates is the exchange policy of Government. If there was a gold standard true and honest in India, the credit supply would be necessarily self-adjusting In the absence of this cardinal reform, sound banking progress will not gather pace in India. India's position in banking is very poor as is pointed out above.

In about 20 per cent. of the towns of India with a population of more than 50,000, there are no banks at all, while in the case of towns with a population of 10,000 and over, the proportion without banking facilities rises to 75 per cent. (India in 1924-25, page 146). The following table shows the comparative poverty of India in this respect.

TABLE TWELVE.

Country.	No. of Banks.	Per million of population.	Per 2,700 square miles.
United Kingdom	11,976	285	362
United States of America	30,000	256	20
Japan	7,465	92	80
Canada	4,883	448	3
India	596	2	1

TABLE TWELVE (*a*).

Country.	Deposit per Head of population.	Banking Capital and Reserve.	Deposits.
United Kingdom	£57	108	2,682
United States of America	£73	1,052	7,754
Australia	£63½	59	350
Canada	£44½	25	379
India	Rs. ½	19	235

This is due to various factors discussed above, not the least of which is the absence of all the State help to Indian banking enterprise. The following table shows what the Government of Japan is doing for the Bank of Japan.

TABLE THIRTEEN.

Percentage of Government Deposits at the end of December.

Year.	Imperial Bank of India.	Bank of Japan.
1924	9·77	902·20
1925	7·01	700·00
1926	8·77	698·76
1927	9·76	419·76
1928	12·65	305·97
1929	9·97	190·41

It may be pointed out that the Japan Bank is a tower of strength for Japanese industries. As a converse proposition this table also points out clearly why India is not an industrial country in spite of being richer than Japan in its natural resources.

Conclusion.—Our Committees believe that banking progress in India can be achieved only if the following recommendations are put into practice without delay.

1. Industrial banks with suitable constitution and most modern methods should be started in every province with Indian personnel, importing foreign talent till full Indianisation is possible.
2. Restricting the operations of foreign banks by fixing the maximum limit for their operations and making it incumbent on them to utilise Indian receipts in Indian channels and to supply training facilities to Indians. Japan has done this, Canada believes in thorough swadeshi banking and India can do nothing less, if her economic self-sufficiency is to be achieved.
3. The Imperial Bank must be converted into an exchange bank till the time Indian exchange banks in sufficient number are established in the country.
4. The Imperial Bank must finally be substituted by a Central Bank which should be a Bankers' Bank and have control over the banking and currency reserve of the country and ultimately note issue. This bank may be a State bank by preference and independent organisation with specific limited State control and answerable only to the Legislature of the country.

We hope your Committee will see their way to support these recommendations.

No. 68.

Letter from M. R. Ry. P. K. Rajamanikkam Naidu Garu, Superintendent, Leather Trades Institute, Industries Department, Madras, No. 316/S., dated 1st April 1930.

I have the honour to submit herewith my answers to the questionnaire of the Indian Central Banking Enquiry Committee referred to me by the Director of Industries, Madras.

I.

1. *Tanning Industry.*—(*a*) Tanners require sometimes help by way of loans for the improvement of their tanneries. (*b*) Floating capital may be required by tanners for the purchase of raw stock. They will be able to return the sum as soon as the outturn is placed with their commission agents.

For building tanneries or effecting improvements in existing tanneries, tanners generally do not go in for loans. Sometimes tanners go to the local Marwari bankers for help for floating capital required for purchase of raw stock and take loans on hundis and return them when they realise money. The Punjabi merchants in Madras who get goods from North India on a commission basis for tanners often sell goods to tanners on credit and collect the money after 1 or 2 months.

2. Generally it is the commission agent who finds money himself and gives advances to the tanners. No document is generally used here except the signature taken in account book. Sometimes tannery or house property papers are deposited with the commission agents. The Punjabi agents take pronotes from the tanners.

I would like to suggest that 30 or 60 days hundi system would be of benefit to the tanners.

3. Marwaris charge 9 to 18 per cent. on loans. Sometimes no security is demanded. Sometimes house or landed property papers are deposited. The Punjabis and local Periamet commission agents do not charge any interest generally on advances as they charge 1½ to 2½ per cent. commission on the sales of the goods. The Marwari rate of interest is often high and ruins tanners. The commission which the Periamet agents charge works out to 3 to 5¼ per month or 36 to 60 per cent. per annum as they are able to realise the sale proceeds generally within a fortnight of the arrival of the goods. The Punjabi agents when they supply goods to tanners, do so at a high price for sale on credit and at a lower price for cash sale.

If interest, say at not exceeding 12 per cent. per annum, is charged only for the number of days the tanner used the money, it will facilitate him.

4. Tanning industry in South India is generally, one-man business and is carried on on a small scale. Banks in India do not finance such industry. The reluctance is due to their not being able to estimate the value of stock held by the tanner as most of the tanneries are situated in villages far away from banks.

Bankers may employ agents who are in a position to understand the tanning business and on their recommendation advance money to tanners,

Yes. I am in favour of trade banks specialising in particular trades. I favour the establishment of an industrial bank in each district or centre.

Men of the same business may be taken as directors of such banks.

Government may advance money proportionate with the money raised with the banks.

They may also guarantee the investors of a certain percentage of interest.

In financing the industry the banks may advance 70 to 75 per cent. of the stock held by the owners.

II.

1. As far as skins and hides foreign trade is concerned, Indian shippers do not generally go in for advances or loans from bankers. One or two big firms are helped by the local foreign exchange bankers. Such loans are given sometimes on security of Government papers or house property papers or in a few cases on simple trust receipts. After the 1920-21 business troubles bankers do not generally advance loan on trust receipts.

Here again the Indian export business is generally a one-man business and also the Indian exporter does business on a small scale.

The export merchant generally gets a letter of guarantee or a letter of credit from his foreign agent of 25 to 90 per cent. After exporting the goods he negotiates the bills through the exchange banks and gets the proceeds. The exporter often requires some financial assistance for purchasing goods against his order. Within a week or two after the goods are collected he ships them and negotiates the bills. So the help that he may require will be for about a fortnight to a month. If money can be advanced to him on hundis of 30 days' sight it will facilitate his business

Bankers may have big godowns and the goods purchased by the exporter may be stored in such godowns and bankers may have custody of them. Advance to an extent of 75 per cent. of the purchase value may be given to the exporter.

2. Foreign importers or foreign agents generally send a letter of authority or guarantee or letter of credit authorising the export merchant to draw on them or their banker 80 to 90 per cent. or in some cases in full.

Local exchange banks negotiate the bills to the exporters on the strength of the letter of authority or guarantee or letter of credit. The banks do not charge any rate but they are benefited by exchange difference. Generally the credit is a sterling credit.

Yes; there are fluctuations in the exchange rate. These fluctuations depend on the amount of exchange bills, both export and import which the bankers have.

There are only half a dozen exchange banks in Madras. They are able to discount all the export bills without any difficulty.

There are no restrictions which the skins and hides exporter can complain of.

The skins and hides exporter has no remarks about exchange rate. But he would like to see that the exchange is on 1/4 basis and not on 1/6

basis and that there are less fluctuations in the rate. If there are frequent and violent exchange fluctuations his business is affected as he generally books business in sterling value.

3. *Nil*.

III.

1. *Nil*.

2. *Nil*.

3. Yes. It is desirable that the use of the word bank be restricted to such of the financial concerns authorised by Government. The financial position of such banks must be examined by Government and published periodically. The rates of interest for loans and for deposits, etc., must be regulated by a maximum and minimum.

(*a*) A private firm, etc.

(*b*) A branch of a firm, etc.

(*c*) A branch of a company, etc.

All these concerns also must be under the control of Government inspection.

The Registrar of Joint Stock Companies may have charge of such work.

4. Yes.

5. Yes. Foreign banks should be allowed to do business in India on receipt of license. In case of foreign banks the Government of India, Commerce Department, may issue, cancel or renew such a license. The foreign banks should not be allowed to compete with local or Indian banks.

6. Yes. Satisfactory.

7. Liquidation proceedings are always tedious. They must be regulated. The liquidators authorised or appointed by Government or courts of law must have more powers to summon contributors and collect the amounts as early as possible and pay the depositors.

8. Bank failures in India have mostly been due to the directors mismanaging the finances.

Directors should not be allowed to take loans against their shares or to grant loans to others without proper security.

9. Yes; amalgamation or reconstruction may be of great use sometimes.

10. Any measure to bring down the cost of liquidation will be of immense service to merchants and depositors.

11. *Nil*.

12. *Nil*.

13. *Nil*.

No. 69.

Statement of evidence submitted by the Secretary, Southern India Skin and Hide Merchants' Association, Madras.

My Association is representative of the tanning industry of Southern India and confines itself in this memorandum to the industry.

Rather than taking question by question I would like to give a continuous statement on the subject.

General.—Tanning is an important industry of the country as a whole and the foremost one of Madras Presidency. Apart from the Madras Presidency, there is considerable tanning in the Bombay Presidency, Bengal, United and other Provinces. Leaving alone the export of raw hides and skins which amount to about Rs. 9 crores per annum, the value of the leather and leather articles manufactured within the country may amount to about Rs. 35 to 40 crores.

A good portion of the leather manufactured in the country is being exported to England and foreign countries. The value of such exports amounts to about Rs. 8 crores per annum. In this export trade Madras is foremost, about 85 per cent. going through it.

That is to say Madras alone exports Rs. 7 crores worth of tanned skins and hides every year. The total output of the Madras Presidency may be anything between 12 and 15 crores (there are no systematically collected statistics for the large amount of Indian made leather consumed within the country). The Madras tanneries will be about 500 in number and they are spread all over the Presidency.

A considerable quantity of tanned articles are being sent from Madras to other parts of the country such as Calcutta, etc.

With regard to exports, the major portion of Indian tanned skins and hides is being exported to London and from thence a great portion is distributed to the other countries of the world mainly through the means of public auctions. A good quantity is being exported also direct to other countries like America and Japan. Of late, direct shipments to America have considerably increased.

I request permission just to mention here that the industry is suffering acutely from depression and is being hard hit, the main reasons being lack of adequate protection and the present rate of the exchange-ratio.

Purchase of raw stock.—Most of the raw goat and sheep skins worked in Madras tanneries are bought from various places of Southern India, while a good quantity comes also from such places in Northern India as Amritsar and Cawnpore. The greater portion of hides comes from Calcutta, Cawnpore, etc.

In Southern India, the skins and hides are first bought by small collectors by cash payment. These collectors take their goods either to weekly village markets, bigger collectors, or tanneries if they are nearby and sell them generally for cash payment. A great portion of the goods goes to what are called Mandies (selling agencies) from whom the owner of the goods gets an advance

ranging from 50 to 80 per cent. of the probable value of the goods. These advances are paid either on railway receipt or on the delivery of the goods. The Mandies sell the goods for commission and pay the surplus, if any, on the sale of the goods. The Mandies also pay, in many cases, standing loan advances to the collectors. Where standing loan advances are received, the collectors have to send their goods only to those particular Mandies. These Mandies sell their goods to the tanners and exporters of raw skins on cash and also on credit terms. The collectors get payment from the Mandies generally by insured post and in some cases through hundis.

Some of the big tanners have their own collecting agencies in various centres of Southern India wherefrom the goods are railed to their tanneries and the goods collected are paid for in cash. Many of the tanners buy at village markets, from collectors and also from Mandies. Except in the case of purchase from Mandies, cash is being paid by the tanners. The Mandies give credit to some of the tanners. Some of the big tanners also give standing loan advances to the collectors. At some of the places where there are big slaughtering houses the tanners buy direct from the butchers and for cash payment.

Some of the tanners have their own men and the others agents in the North Indian purchasing places. The purchases in Northern India are paid for in cash at those places or through sight or usance hundis. In the case of the employment of agents, the said agents pay for the goods at the purchasing places and get the money from the tanners by bank remittances in some cases, by insured post in some others, and by hundis in yet other cases; that is to say, sometimes, after the goods reach their destination, and sometimes, as soon as the purchase is made.

The credits mentioned above are carried on on open account system. The hundi system has not come into more vogue because the bankers are reluctant, many of the parties being unknown to them. Because of such known reluctance on the part of the bankers many of the traders feel shy to go to them. General lack of knowledge about the advantages of banking amongst the people at large is also an important cause for the present state of affairs.

The raw skin Mandies have practically no dealings with Indian joint stock banks. A few of them resort to the indigenous bankers.

If and when the knowledge of the benefits of banking and banking facilities improve and advance, the abovesaid people will considerably be benefited. The Hundi system will then be more widely adopted and monies may be advanced to such people as Mandi owners on the security of raw stock in their godowns. When the paucity of money is lessened, more people will go into the trade.

Tanneries and their finances.—From the time the raw skins and hides arrive at the tannery they take about 40 to 60 days to come out as tanned articles.

A few of the big tanners sell a portion of their output on firm orders to other countries and draw the value against shipping documents under credits opened by the buyers. Good many of the tanners send their goods to tanned skins and hides Mandies at Madras for local sale. These Mandies sell the goods outright to the exporting firms at Madras who ship them in their turns to other countries. Other tanners send their goods to exporting houses at Madras to be shipped to London for sale in the periodical public auctions.

Now taking a tannery working about 15,000 pieces of goat and sheep skins or 5,000 pieces of cow or buff hides per month, the following is the approximate capital required :—

Buildings, implements, etc.	Rs. 20,000 to Rs. 40,000
Amount locked up in stocks undergoing the several processes of tanning, and in the tanning materials always stocked in the tannery.	Rs. 75,000
Standing advances given to the skilled workmen	Rs. 5,000 to Rs. 10,000
Floating capital required	Rs. 30,000 to Rs. 40,000
	Rs. 1,40,000 to Rs. 1,65,000

Out of this amount, the tanners who send their goods to London auctions receive a sum of Rs. 30 to 40 thousand in the shape of standing advance from the exporting firms, in most cases on an interest of about 9 per cent. and on the security of their stock-in-trade and frequently on the additional security of immovable properties. Now-a-days when the trade is seriously depressed the tanners have gone much deeper into debt and owe standing loan advances far in excess of the above mentioned proportion. The Muslim exporting houses do not as a rule charge interest, but take a commission on the shipping advance of the goods. This standing advance makes the tanners dependent upon the exporting firms and they have to sell their goods only through those particular exporting firms. It will be desirable if such standing advances are paid by some banking institutions such as industrial banks.

The tanners also receive an advance on the despatch of their goods from either the Mandies or exporting firms. This advance ranges from 50 to 80 per cent. of the probable value of the goods. This advance is remitted to the tanners on receipt of the relative railway receipt or on the arrival of the goods. Such remittances are usually made by insured post. In some cases hundis are being drawn for such advances. Some of the exporting firms charge an interest of 9 to 12 per cent. on these advances until the time when they reimburse themselves with the drafts drawn on the shipment of goods. With the increase of banking facilities, this system may be improved upon by the banks paying advances when the goods are ready for despatch to Madras.

It is only the exporting firms, a few Mandies and perhaps a very few tanners who are in the cities that get any money or facilities from banks. The generality of the tanners do not have any dealings with the banks—whether exchange or Indian joint stock banks. Some of them have dealings with indigenous bankers, mainly for financing the purchase of raw stocks. These loans are paid back when the tanners get the advance money for their tanned articles. The interest on such credits is generally 9 to 12 per cent. It is reported that in certain cases the tanners pay even as much as 24 to 30 per cent.

Export trade.—The exporting firms draw with reference to goods sold to order usance drafts under letters of credit opened by the buyers for the full value of the goods. With reference to the goods going for the London auctions, they ship them to London by the first available steamer. They endorse the usance drafts drawn by the tanners on their agents in London against the shipping documents for an amount equal to the advance received by the tanners. These drafts are negotiated by the banks according to arrangements that exist between the exporting houses and their agents. In some cases the exporting houses themselves draw direct on their agents.

The goods are warehoused in London until the auctions. The buyers have to pay for the goods bought by them on the prompt day which is usually fixed a fortnight after the beginning of the auction. Then the surplus, if there is any, is remitted, usually by telegram, to the Madras exporting firms who then distribute it to the tanner-consignors. Three to four months elapse between the time of the despatch of the goods from the tannery and receipt of the surplus.

All the branches of this industry and the exporting trade have much room for benefitting by the increase of banking facilities in the country. For example, the tanned skin and hide Mandi people may be able to get monies on the strength of the goods at their godowns. These will, in their turn, benefit the tanner.

Industrial Bank.—Industrial banks are a necessity in the country, as the present banks do not give long-term credits to industrial concerns. Such banks should be established in each province with branches in all important industrial centres. Government should give active and effective support to them, as for example, by guaranteeing dividends and by subscribing to their debentures. Government should have some sort of supervision over such banks; and the constitution of the bank should be so framed as to make this possible. The banks should employ experts for advising them. Some restrictions are of course necessary on the grant of loans by such banks. For example, it may be enacted that no loan should exceed the market value of the assets of a factory and/or of security given; or exceed the paid-up-capital of a joint stock concern. It may also be put down that no one concern shall be granted a loan exceeding a certain small percentage of the capital of the industrial bank.

Trade Banks.—My Association is not in favour of specialised trade banks. With the inauguration of industrial banking on proper lines, and the increase of general banking, all the trades and industries will be properly served and compartmentalisation of banking may not be conducive either to the expansion of banking or to the increasing enjoyment of facilities by the trade and industry, excepting at those stages where co-operative banking is possible.

London Auctions.—London public auction is an important factor in the tanned skins and hides trade. All the output of the tanneries cannot be sold to firm orders by the tanners. The lots of goods turned out by the tanneries consist each of several grades, weights and other descriptions. The buyers in other countries want each a particular grade or weight and in a certain quantity. Even supposing that quantity is not under consideration, each small tanner would have to get hold of 10 or 12 regular buyers in other countries to keep buying on his goods as they come out of the tannery. This is not possible. So a general market has to be established whereto the tanners may send their goods and wherefrom the several buyers will buy what they want. This market is established in the shape of public auctions in London because of its proximity to the consuming centres and of its huge financial facilities.

Financial facility is the most important factor. About 4 crore rupees worth of Indian tanned skins and hides are dealt with by the London auctions every year. A very large amount is required for financing the goods that go to, and await, the public auctions. The desirability of transferring that market to such an important centre as Madras by creating warehousing and financing facilities here is to be seriously considered.

No. 70.

THE CALCUTTA STOCK EXCHANGE ASSOCIATION LTD.

REPLY TO THE SPECIAL QUESTIONNAIRE OF THE INDIAN CENTRAL BANKING ENQUIRY COMMITTEE.

Q. 1.—It has been suggested that the formation of Investment Trusts would assist the mobilization of capital for industrial purposes. Would you kindly state if any attempts have been made to form such Trusts in Calcutta and with what success? If not could you make any suggestion for the formation of such Trusts, and do you think that it would be practicable for Government to give any assistance?

A.—Investment Trusts, as generally understood, do not exist on this side of India; there are a few small "Trusts" but these are without exception under private management and are unimportant. So far as we are aware, no attempts have been made on any large scale to form Investment Trusts. We agree that Investment Trusts, the formation of which usually follows, but does not precede, industrial development would assist in the mobilization for investment purposes of capital which at present is shy, largely as the result of the disastrous crash which followed the boom flotations of 1919-20, but that they would mobilise capital for industrial purposes, or for new enterprises is, we think, doubtful.

Such Investment Trusts would have to be under expert management and beyond suspicion and would have to raise their own capital. We do not think that it would be practicable for Government to give assistance otherwise than in the matter of supervision and perhaps of tightening up the Indian Companies Act; it might perhaps be practicable to subject these Trusts to the supervision of the Accountant-General's Department. Considerable latitude, however, in the matter of investments would have to be allowed.

Q. 2.—It has been stated that in the flotation of a company the name of the Managing Agents is of more importance than the inherent merits of the company. Would you kindly give your opinion on this point, and also express any views you may hold on the adequacy or otherwise of the system of Managing Agents in obtaining capital for industrial ventures?

A.—It is to a large extent true that in the flotation of a company the name of the Managing Agents is of more importance than the inherent merits of the company itself, inasmuch as the latter are not revealed until the company has been working for some time; it, therefore, follows as a matter of course that the reputation of the Managing Agents carries great weight when going to the public for money for a new enterprise. In the past it has not been difficult for firms of first class Managing Agents to secure capital for sound or promising undertakings, but owing to the existing world wide depression, it is becoming increasingly difficult to obtain money for industrial ventures, no matter how promising.

Q. 3.—It has been stated that debenture issues are not popular with the public for various reasons such as initial stamp duty, duty on transfers, and the unlikelihood of capital appreciation which counts for much

in the eyes of Indian investors. Would you kindly state your opinion on these and other points which may strike you as the cause of the unpopularity of debentures?

A.—We do not consider that the question of initial stamp duty has any bearing on the popularity or otherwise of Debenture issues; it must be remembered that no stamp duty falls to be paid by the purchaser in the case of port trust, municipal or joint stock company debentures unless in registered form (there are not more than about half a dozen issues in all of "registered" debentures) and then the stamp duty is the same as for share transfers.

The "unlikelihood of capital appreciation" does not, we think, count for much; there is at all times a large class of investors who prefer the security offered by sound debentures to the possibility of capital appreciation. Where, however, the debentures are other than "gilt-edged" or relating to a *jute mill*, a high interest yield is necessary to attract money. Buyers of debentures have become so accustomed to such a very large margin of safety that where this feature is not present, or the property is not regarded as readily saleable, it is not always easy to place such debentures.

We should not say that debenture issues are "unpopular"; they are not, but they appeal to the totally different and more limited class which is not interested in more speculative investments. At the present time, sound jute mill debentures command a price which gives an even smaller return than is available on certain Government of India securities.

Q. 4.—It has been stated that *Indian* companies find it exceedingly difficult to place issues of debentures. Have you any experience of any unsuccessful attempts on these lines, and would you say that issues by European companies would command any greater success?

A.—The only local issues by Indian companies of which we have knowledge are the debenture issues of the Hukumchand Jute Mills Ltd., and the Birla Jute Manufacturing Co., Ltd. The money for both of these issues was obtained without difficulty though we are doubtful if at that time it would have been forthcoming (whether under Indian or European auspices) *had the security been other than that of a jute mill.* It is the nature of the security offered which counts; where this is satisfactory and the yield is sufficiently attractive, the public will subscribe readily enough always provided that the Managing Agents are firms of standing and repute, or whether they are European or Indian, with perhaps a slight preference in favour of the former.

Q. 5.—Various proposals have been put forward in connection with the sale of bank shares with a view to prevent "bear raids" which are said to have caused demage to banks' reputation in the past. Restrictions have been suggested on forward operations in banks' shares, and it has been stated that the introduction of some provision as provided in Leeman's Act might be beneficial, under which the seller must always quote the actual numbers of the shares sold. The suggestion has also been made that compulsory registration by the buyer should be enforced, specially in the case of partly paid shares. Would you kindly state if the co-operation of the Stock Exchange could be secured in the enforcement of any such proposals if it was decided to adopt them?

A.—We think that the question of bear raids in connection with the sale of bank shares probably refers more to the Bombay market; we have had no experience in Calcutta of such raids, though some eleven years ago when the shares of the Tata Industrial Bank were a favourite medium of speculation both locally and in Bombay, and when several thousands of shares would change hands every day, it was a comparatively common occurrence for orders for large numbers of shares to be sent to Calcutta brokers as the result of, or in connection with, bear operations in Bombay. That, however, is past history, and the only bank shares now dealt in on this market are the comparatively small numbers of Imperial Bank of India and similar institutions, bought and sold by *bonâ fide* investors, and they in common with all other securities on this market are all dealt in on a cash basis.

The co-operation of the Calcutta Stock Exchange can always be relied upon for any safeguards or constructive proposals.

It is a bye-law of the C. S. E. A.* that "the buyers' name must be inserted on the Transfer Deed of all contributory shares". The bye-laws also provide that unless buyers of contributory shares got them transferred to their own or their buyers' names within 30 days from the date of delivery, the buyers themselves become liable for all calls, etc., from the date of purchase.

We would suggest that all transactions in bank shares be for cash delivery, and be not for forward settlement. Such restrictions as indicated *viz.*, that the seller must always quote the distinguishing numbers of the shares sold, would frequently render business either very difficult or all but impossible—as for instance when shares are being sold under instructions from banks or executors resident abroad, when share numbers are not immediately available.

Q. 6.—Would you kindly state your experience in the matter of the underwriting of shares of a new company? Is such underwriting customary or are the shares usually taken up at once by the public?

A.—The practice of getting the shares of a new company, underwritten, is not general; promoters of new concerns usually consult their brokers as to the probability of the success or otherwise of any new issue before offering it to the public and are guided by their advice. Occasionally, however, even when the prospects of obtaining the necessary capital appear favourable, certain firms of Managing Agents prefer to make sure of the success of a new issue by getting it underwritten, and failing success, do not proceed with the flotation.

There are no firms or groups of capitalists in Calcutta who make a regular business of underwriting and there have been several instances within the last year or two where the promoters of even certain promising public utility companies have failed to get their undertakings underwritten on any terms.

Q. 7.—It has been stated that in order to secure public confidence in an Industrial Bank the interest on the share capital should be guaranteed by Government, either for a limited period or permanently. Would you

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* Calcutta Stock Exchange Association.

kindly give your views on this point? Do you think that any large amounts of public money would be forthcoming for such a bank on the above conditions?

A.—Speaking generally, we believe that the public would freely subscribe capital for an Industrial Bank with a permanent Government guarantee. It seems to us, however, that the business of any bank, the interest on the share capital of which is guaranteed by Government, would of necessity be very limited and inelastic. Every bank in making an advance to a customer runs a certain amount of risk (in most cases the risk is admittedly negligible) but presumably no Government Bank would be prepared to take any risks whatever, and this would probably defeat the end in view.

Q. 8.—It has been stated that a very wrong and arbitrary use is made of the power vested in directors to refuse to register a transfer of either fully or partly paid shares. Have you any experience of such abuse?

A.—Although most companies' Articles of Association confer upon the directors the power to refuse to register a transfer, with or without assigning a reason therefor, it is very seldom indeed that this power is exercised, and we have heard of very few instances of its abuse. We consider, however, that the powers of refusal to register, if vested in the directors, may lead to abuse in certain circumstances and that these powers should be curtailed.

There have been instances of refusal to transfer shares out of the name of a person indebted to a company on the ground that the company had a lien on the shares; that, however, is not exactly an "abuse" of the power of the directors unless it is exercised against a third party, who is the *bona fide* purchaser against value, without previous public notice having been given of their claim against the registered shareholder.

Q. 9.—It has been recommended that the general form of proxy should be prohibited or limited to a definite period. Have you any objection to this proposal?

A.—We do not rightly appreciate this question. The *only* form of proxy in general use here is one appointing a named person as proxy for the shareholder to vote for him and on his behalf at a named meeting on a named date.

Q. 10.—It has been stated that the investment market has been detrimentally affected by issues of Government loans, and by Treasury Bill operations. Would you kindly give your views on this matter?

A.—Government's financial policy during the past three or four years and the repeated issues of Treasury Bills at high rates of interest (in certain cases, even, the Government's new loan has scarcely been out of the way before offers of Treasury Bills at a higher rate of interest than that offered on the loan just closed, have been made to the public) has undoubtedly resulted in a serious fall in the price of all existing Trustee securities, so much so that during the past three years, those who previously supported Government loans, have found themselves such heavy losers by depreciation that they have preferred to invest in Treasury Bills with the certainty of no capital loss, rather than in Government securities, even though this year a yield of 6 per cent. was obtainable.

List of witnesses from whom written statements (not printed herewith) have been received.

1. Mr. D. L. Saraya M.A., LL.B., Store-keeper, Nawanagar State, Jamnagar.
2. Mr. M. D. Vidwans, M.A., LL.B., Poona City.
3. Mr. Karam Chand.
4. Mr. D. V. Pradhan, Clerk, Postmaster General's Office, Bombay.
5. Babu Govind Prasad Basu, Pleader, Jaipur, Orissa.
6. Moulvi Davoodbhoy Mulla Hussen Ally, Chankulia, District Singbhoom.
7. The Hon. Secretary, Nagpur Central Bank.
8. Babu C. C. Chatterjee, Manager, Wards and Encumbered Estates, Palamau.
9. The Hon. Secretary, Central Co-operative Bank, Puri.
10. The Managing Proprietors, Messrs. Ram Rattan Kunj Behari Lal, Ludhiana.
11. Messrs. Cooper Allen & Co., Cawnpore.
12. Mr. Krishna Gopal, B.A., LL.B., Pleader, Batala.
13. Mr. Abdul Subhan Sahib, Madras.
14. Mr. Kanhaiyalal G. Upadhyaya, Ratlam.
15. Mr. A. R. Subedar, Dubash and Contractor, Bombay.
16. Mr. M. R. V. Sarma, Conjeevaram.
17. Rao Bahadur Sardar M. V. Kibe, M.A., Indore.
18. Prof. D. L. Dubey, M.A. (All.), Ph. D. (Lond.), Meerut.

APPENDICES.

APPENDIX I.

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APPENDIX I.

Observations of Provincial Governments on the Provincial Banking Enquiry Committees' reports.

No. 1.

LETTER FROM THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, TO THE GOVERNMENTS OF MADRAS, BOMBAY, BENGAL, UNITED PROVINCES, PUNJAB, BURMA, ASSAM, BIHAR AND ORISSA AND CENTRAL PROVINCES, No. 2386, DATED THE 3RD SEPTEMBER 1930.

I am directed to request that the Indian Central Banking Enquiry Committee may kindly be favoured by the 15th October next with any observations which the local Government may have to make on the Madras, etc., Provincial Banking Enquiry Committee's report.

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No. 2.

LETTER FROM H. A. WATSON, ESQ., I.C.S., SECRETARY TO THE GOVERNMENT OF MADRAS, FINANCE DEPARTMENT, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. 27721-ACCTS.-4, DATED THE 7TH OCTOBER 1930.

* * * *

I am also to inform you that this Government do not propose to make any observations on the Madras Provincial Banking Enquiry Committee's report at this stage.

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No. 3.

LETTER FROM G. WILES, ESQ., C.I.E., I.C.S., SECRETARY TO THE GOVERNMENT OF BOMBAY, FINANCE DEPARTMENT, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. 6724/D., DATED THE 24TH OCTOBER 1930.

I am directed to invite a reference to the correspondence resting with my letter No. 63/107, dated 17th September 1930, and to state that the Committee appear to have been incorrectly informed on the following points.

Paragraph 49 of the Report.—Under agricultural indebtedness, the Committee have given in this paragraph certain figures estimating total agricultural debt of the whole province. The correctness of these figures appears to be open to great doubt. Certain data are available for less than 16,000 families. On this the Committee calculates the figures for 24½ lakhs of families.

The estimate of total families itself also appears to be excessive. In the case of Sind for instance, the number of agricultural families is given as 6,55,800 and a foot-note states that a family is taken to consist of five members. According to the last census the total population of Sind was only 32·79 lakhs: it appears, therefore, that this table treats the whole population of Sind as agriculturists.

Another source of error in this paragraph is that the book figures of debt are often nominal. Much of the debt is irrecoverable and a general debt settlement would show that the figures of 'live' debt are much less than those ascertained by inquiry.

Paragraph 76.—This paragraph contains figures purporting to give a rough estimate of the finance required for the current needs of agriculture. These figures appear to be an estimate of the total expenses of agriculturists *less* the amounts provided by those who do not require to borrow But if this is the intention the figures appear to be wrong in two respects:—

(1) Land assessment, rent and irrigation dues are put down at only Rs. 105 lakhs for the Presidency, including Sind. The annual total of land revenue and irrigation dues is in the neighbourhood of Rupees six crores, without the additional rental charges.

(2) It is assumed that only 15 per cent. of expenditure in the Presidency (proper) and 5 per cent. in Sind can be met without finance (? borrowing).

This latter calculation appears to be based on the figures of persons who are borrowers (paragraph 74). Even if these figures are correct they relate to the number of persons and not to the amount of borrowing. The small percentage of persons who do not need to borrow are likely to be large landowners and the proportionate amount which they provide out of their own resources is certainly much greater than their proportionate numbers.

Paragraph 177.—On page 139 the Committee state that "there are no experts on the staff (of the Department of Industries) equipped to advise and supervise". The Department has now on its staff an Industrial Chemist and an Industrial Engineer. These two officers and the Director being all technical men, it is now possible to give reliable technical advice on a number of small industries.

Paragraph 235. (1) and (2).—The income of co-operative societies is exempt from income-tax and super-tax except in the case of income from investments outside the co-operative movement, *i.e.*, in Government Securities. etc. The Societies have already been requested to apply to the Income-Tax Officers concerned for certificates which will prevent deduction of the tax at the source.

No. 4.

LETTER FROM G. WILES, ESQ., C.I.E., I.C.S., SECRETARY TO THE GOVERNMENT OF BOMBAY, FINANCE DEPARTMENT, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. 6724/D., DATED THE 23RD DECEMBER 1930.

In continuation of this Department letter No. 6724-D., dated 24th October 1930, I am directed to state that the Committee appear to have been incorrectly informed on the following points:—

Paragraph 28—Inam Tenure.—The definition of 'Inam' or 'Alienated land' given in this paragraph, is practically a quotation of the definition of the word 'Alienated' in Section 3(20) of the Land Revenue Code. In the definition as quoted in the Report there is however an omission of the words 'to payment of the rent or land revenue' after the words 'rights of Government'. The omission is material.

Further down in the same paragraph, it has been stated that 'all the Inam lands * * * * have now been settled on their present holders under the *Survey Settlement Act of 1863'*. There is no such Act as 'Survey Settlement *Act of 1863'*. The reference presumably is to the Summary Settlement Acts (II and VII of 1863). It may also be noted that these Acts do not cover the settlement of all the Inam Lands.

There are also some slight inaccuracies in the description of the different kinds of Inam lands, *e.g.*, in the further portion of the paragraph there is a statement that—

'Service Inams are of two kinds:—

(1) Inams for services already rendered in which case they are in the nature of personal inams or grants, and
(2) Inams for services to be rendered'.

Of these the reference to (1) seems to be intended to apply to the commuted service Inams. If so, they are not of the nature of personal Inams described in the same paragraph.

In the concluding sub-paragraph there is a statement—

'Watans consist of grants of land made to officers either useful to Government or to the community.'

If the term 'Watans' is used in the sense given to it in the Watan Act, 'Community service Inams' are not 'Watans' inasmuch as the Watan Act does not apply to them.

Paragraph 93—Government tagai.—It is stated in this paragraph that 'There is scope of tagai loans where cultivator holds his land under a restricted tenure'. If this means that tagai is not now given on the security of lands held on restricted tenure, it is not correct.

No. 5.

LETTER FROM E. N. BLANDEY, ESQ., I.C.S., SECRETARY TO THE GOVERNMENT OF BENGAL, FINANCE DEPARTMENT, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. 654-T. F., DATED THE 6TH OCTOBER 1930.

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2. As regards the report of the Bengal Provincial Banking Enquiry Committee, I am to say that the Bengal Government do not wish to express any opinion now. Though the conditions of Bengal differ in many respects from those of other provinces, they feel that the main problems involved in the present enquiry must be general to the whole of India and that it will be premature to make observations upon the conclusion of the Provincial Committee before seeing the results of the Central Committee's deliberations. If, however, there are any specific points upon which, as affecting the main problems, the Central Committee desire information, this Government will be pleased to supply it to the best of their ability.

No. 6.

LETTER FROM E. A. H. BLUNT, ESQ., C.I.E., O.B.E., I.C.S., SECRETARY TO GOVERNMENT, UNITED PROVINCES, FINANCE DEPARTMENT, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. 5897-C., DATED 20TH SEPTEMBER 1930.

In reply to your letter No. 2386, dated September 3, 1930, I am directed to say that this Government have no observations to make on the report of the United Provinces Provincial Banking Enquiry Committee.

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No. 7.

LETTER FROM THE REVENUE SECRETARY TO GOVERNMENT, PUNJAB, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. 35416-REV., DATED THE 29TH NOVEMBER 1930.

I am directed to refer to paragraph 2 of my letter No. 28981, dated the 14th October, in which you were informed that the observations of the local Government on the report of the Punjab Provincial Banking Enquiry Committee would be sent to you later.

2. I am now to express regret that in the short time which has elapsed since the publication of the Report this Government have found it impossible to arrive at any definite decisions on the recommendations of the Provincial Committee. Some of these, being of all-India importance and of a technical character, are matters which doubtless will have the full consideration of your Committee, and the Punjab Government would prefer to await your Committee's opinion and recommendations in regard to them before committing themselves to any definite view. Others which concern this Province only will receive immediate attention from this Government, but before this detailed examination takes place the Governor in Council thinks it would serve no purpose if merely tentative views on specific recommendations were stated for the information of your Committee.

3. The recommendations that in Joint Stock Banks, cash balances should not be less than 15 per cent. of deposits is the only suggestion which the Committee has to offer on the difficult subject of the control

of these institutions, and as such must be regarded as an inadequate contribution to the problem. There is no discussion as to the interpretation to be placed on the recommendations nor as to the method by which compliance is to be insured. The Committee have not, moreover, entered into the question whether there should be a legal minimum to the capital to be paid up before a bank is allowed to commence business. The Punjab Government would welcome any measure which would strengthen the trustworthiness of joint stock banking companies and would tend towards the encouragement of the deposit habit and I am therefore to express the hope that the Central Committee will be able to devise means to secure these ends.

4. I am to add that the Governor in Council considers that on the whole the report is a valuable contribution to the problems of internal finance and is throughout a reflection of sound common sense views.

No. 8.

LETTER FROM H. L. NICHOLS, ESQ., I.C.S., SECRETARY TO THE GOVERNMENT OF BURMA, REVENUE DEPARTMENT, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. 59-K.-29-PART VII (636), DATED THE 29TH SEPTEMBER 1930.

In reply to your letter No. 2386, dated the 3rd September 1930, on the Burma Provincial Banking Enquiry Committee's report, I am directed to say that it has been suggested to the Local Government that the Central Committee might be asked to bring the following matters specially to the notice of the Government of India:—

(i) The recommendation in paragraph 722 of the Burma Provincial Committee's Report (page 321) that the period of six months allowed for redemption after the preliminary decree has been passed in mortgage suits should be reduced to two months;

(ii) The recommendations in paragraphs 653 to 667 for legislation relating to definitions of the term "Banker" and correlative terms;

(iii) The recommendation in paragraph 781 for the provision of more accurate statistics concerning paper currency in Burma.

The Local Government agrees that, if the Central Committee has no objection, this may suitably be done, and has no further observations to make.

No. 9.

LETTER FROM H. L. NICHOLS, ESQ., I.C.S., SECRETARY TO THE GOVERNMENT OF BURMA, REVENUE DEPARTMENT, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. 59-K.-29-PART VII (215/31), DATED THE 10TH MARCH 1931.

In continuation of my letter No. 59-K.-29-Part VII (636), dated the 29th September 1930, I am directed to forward herewith, for favour of consideration by the Indian Central Banking Enquiry Committee, copies of the enclosed letters in which both the Burma Indian Chamber and the Chettiyars' Association request that the recommendations in paragraphs 732 and 748 of the Burma Provincial Banking Enquiry Committee's Report Volume 1, should be given effect to.

LETTER FROM THE HONORARY SECRETARY, NATTUKKOTTAI CHETTYARS' ASSOCIATION, BURMA, RANGOON, TO THE SECRETARY TO THE GOVERNMENT OF BURMA, FINANCE AND REVENUE DEPARTMENT, RANGOON, No. G.-21/30-31, DATED THE 26TH FEBRUARY 1931.

I am directed by my Committee to invite your attention to the recommendations contained in paras. 732 and 748 of the Report of the Burma Provincial Banking Enquiry Committee, 1929-30 with regard to the extension of Power of Sale and of Mortgages by Deposit of Title Deeds.

As regards the Power of Sale, the Banking Enquiry Committee has recommended in paragraph 732 that "the whole of the Pegu and Irrawaddy Divisions and Akyab District and Mandalay town should be notified by the Governor General under Section 69 (1) (c) of the Transfer of Property Act (as amended by Act XX of 1929)".

With regard to Mortgages by Deposit of Title Deeds, the Banking Enquiry Committee has recommended in paragraph 748 that "as a cautious beginning the power to make mortgages by deposit of title deeds should be extended to the headquarters of all registration Sub-districts in the Pegu and Irrawaddy divisions, subject to the provisions for registration and for limitation of period described above". It has further recommended that "the Act XX of 1929 should be amended at the earliest convenience by substituting "region" for "town" in the clause permitting such extensions, and extension should then be made to the whole of the Pegu and Irrawaddy divisions unless experience of the effects of the extension to towns has revealed objections not seen now".

My Committee strongly support these recommendations and beg to request the Government of Burma to be so good as to move the Governor-General to notify the extensions recommended. My Committee trust that the Government of Burma will be pleased to comply with their request.

LETTER FROM THE SECRETARY, BURMA INDIAN CHAMBER OF COMMERCE, TO THE SECRETARY TO THE GOVERNMENT OF BURMA, FINANCE AND REVENUE DEPARTMENT. No. G. L.-157/30-31, DATED THE 23RD FEBRUARY 1931.

I am directed by my Committee to address you with regard to the recommendations contained in Paragraphs 732 and 748 of the Report of the Burma Provincial Banking Enquiry Committee, 1929-30.

With regard to the power of Sale, the Enquiry Committee has recommended in paragraph 732 that "the whole of the Pegu and Irrawaddy Divisions and Akyab District and Mandalay Town should be notified by the Governor General under Section 69 (1) (c) of the Transfer of Property Act (as amended by Act XX of 1929)".

As regards Mortgages by deposit of title deeds, the Enquiry Committee has recommended that "as a cautious beginning the power to make mortgages by deposit of title deeds should be extended to the headquarters of all registration sub-districts in the Pegu and Irrawaddy Divisions, subject to the provisions for registration and for limitation of period described above". It was further recommended that "Act XX of 1929 should be amended at the earliest convenience by substituting "region" for "town" in the clause permitting such extensions, and that extension should then be made to the whole of the Pegu and Irrawaddy Divisions unless experience of the effects of the extension to towns has revealed objections not seen now."

My Committee strongly support the recommendations mentioned above and beg to request the Government of Burma to be good enough to move the Governor General to notify the extensions recommended. My Committee trust that the Government of Burma will be pleased to comply with their request.

No. 10.

LETTER FROM C. K. RHODES, ESQ., I.C.S., OFFG. SECRETARY TO THE GOVERNMENT OF ASSAM, FINANCE DEPARTMENT, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, NO. 4428-F. (a), DATED THE 16TH OCTOBER 1930.

With reference to your letter No. 2386, dated the 3rd September 1930, and in continuation of this Department letter No. 4174-F. (a), dated the 19th September 1930, I am directed to say that as the time for the examination of Report of the Assam Provincial Banking Enquiry Committee has been short, it has not been possible to obtain the advice of local officers, but only to make a general survey of the different recommendations. The observations of this Government on the recommendations of the Committee as summarized in paragraph 232 at pages 220 to 232 of the Report, are accordingly given below:—

No. 1.—This Government have adopted colonisation schemes in Nowgong, Mangaldai and Barpeta, where the influx of immigrants is heavy and where considerable areas of waste lands are available for settlement. A colonisation scheme for North Lakhimpur is also in contemplation. These colonisation schemes should effect the necessary control.

No. 2.—Government propose to examine this question at once, ascertain the facts and see whether any action is called for.

No. 3.—The extension of rural societies in Sunamganj will be duly considered, when a whole-time Co-operative Inspector is available for the sub-division. With a proposed increase in the cadre, it is hoped this will be possible. As regards grain golas a start has already been made in this sub-division.

No. 4.—The question of extending the seed distribution operations both to individuals and to rural societies is under consideration.

Nos. 5-6.—This Government fully endorse these recommendations.

No. 7.—No remarks.

No. 8.—The Government of Assam are not in a position to depute officers to advise on reclamation schemes and the like on any extensive scale until they are able to form a special riparian division of the Public Works Department which is under consideration, but for which they have no funds at present. Some difficulty is also anticipated in getting the Legislative Council to pass legislation giving the necessary emergency powers regarding the maintenance of drainage and embankment works. Assuming that feasible schemes are formulated, the proposal to finance them by land improvement loans is reasonable, but it is doubtful whether it would be practicable in the absence of legislation making the lands improved by a scheme liable for the cost.

No. 9.—Government doubt whether it is practicable to give loans for the permanent fencing of cold weather crops.

No. 10.—No remarks.

Nos. 11-16.—Government endorse these recommendations.

No. 17.—The present periods for repayment of loans by the Kamrup and the Sylhet Land Mortgage Banks were fixed after due consideration, but Government are ready to reconsider the question in the light of the present recommendation, if this is found necessary.

No. 18.—The Government of Assam will bear the Committee's remarks in mind in considering proposals for the grant of further loans to the land mortgage banks mentioned.

No. 19.—Government endorse the suggestion.

No. 20.—This question will be examined by Government.

Nos. 21-23.—No comments.

Nos. 24-27.—Government endorse these recommendations.

Nos. 28-29.—The Registrar will be asked to consider these recommendations and submit his proposals.

No. 30.—Government agree that the issue of debenture bonds is at present premature, but they will duly consider the question when the time is ripe for action.

No. 31.—No remarks.

Nos. 32-37.—Government endorse all these recommendations.

No. 38.—Government will consider this recommendation, although they are not convinced that newly arrived immigrants require no assistance in the shape of loans.

No. 39.—Government endorse this suggestion.

No. 40.—Government hope to continue to make liberal grants to improve communications as far as funds permit. They also trust that, as time goes on, local boards will assist in raising money by further taxation whenever possible.

No. 41.—This will be considered in due course, but action at present appears to be somewhat premature.

No. 42.—Government, who at present have under consideration a proposal to increase the staff, hope to extend their activities in educating the public along the right lines of co-operation.

No. 43.—The only jute sale society in Assam, which was established in Nowgong, is now under liquidation. Before starting any other, Government propose to examine the working of such societies in Bengal.

No. 44.—Government agree.

No. 45.—This would be advisable but Government share the doubts of the Committee, as noted in paragraph 97 of the main Report, as to its practicability at the present time.

No. 46.—No comment.

No. 47.—Government agree with the Committee that the scope for commercial banks in Assam is at present limited and the struggle for their establishment will be by no means easy, but they are ready to consider sympathetically any such enterprise on the part of the local people.

No. 48.—No remarks.

No. 49.—Government will consider this recommendation.

No. 50.—Enquiries will be made by Government regarding land suitable for *some* trees. Experiments are being made as regards *mezangkori* trees in the sericultural station in Shillong, and reports show that the trees are making good progress. The deterioration of these trees in value for the purpose of silk producing as they grow older, unless they are well cared for, is an important factor which may prevent extensive cultivation.

No. 51.—Government are watching with interest the results shown by the present weaving schools and will add to their number when such a course seems advisable.

No. 52.—This question is under the consideration of the Director of Industries and Government await his recommendation.

No. 53.—No remarks.

No. 54.—The Director of Industries has been taking action to extend the activities of the Weaving Department on the lines suggested by the Committee.

No. 55.—Government will give effect to this recommendation, as suggested by the Committee, when the staff is increased.

No. 56.—This will be done.

Nos. 57-58.—Steps are being taken to encourage the cultivator to grow more than one crop a year. It is hoped that the activities in this direction of immigrants from East Bengal will open the eyes of the indigenous cultivators, particularly in the Assam Valley.

No. 59.—The recommendation of the Committee is being considered by the Director, who is now framing rules for credit sales. Several milk societies started in the Surma Valley are making satisfactory progress. Government have deputed an officer of the Agricultural Department to supervise the work and have also given financial assistance. Steps are being taken to organise milk societies in the Assam Valley also.

No. 60.—Scholarships are already awarded, and their number will be increased when possible, provided funds permit.

No. 61.—The Committee's recommendation will be brought to the notice of the Advisory Board of Development.

No. 62.—No comments.

No. 63.—This Government see no objection provided the practice recommended is uniform all over India.

Nos. 64-69.—No remarks.

No. 70.—Government agree

No. 71.—Only one plains sub-division is now without a Central Bank. The question of paying the cost of an extra Supervisor, either to the Provincial or to a district Central Bank, provided it agrees to finance societies within the sub-division, will be considered when proposals are received.

Nos. 72-73.—No comments.

No. 74.—Government will take steps to give effect to this recommendation as far as possible.

Nos. 75-77.—Government endorse this recommendation.

No. 78.—Government have already taken action.

No. 79.—Government hope to give effect to this recommendation when it is found possible to do so.

No. 80.—Proposals have been received from the Registrar for strengthening his staff and they are now under examination. The recommendation of the Committee will be duly considered before this question is finally decided.

Nos. 81-89.—No remarks.

No. 90.—These societies have already received encouragement and financial assistance from Government.

Nos. 91-92.—Government endorse these recommendations.

No. 93.—This question is already engaging the attention of Government, who agree that caution will have to be exercised.

No. 94.—There will be no administrative difficulty in giving effect to this recommendation, if the Government of India accept the underlying principle of granting exemptions to deposits which have been in existence for 5 years.

No. 95.—No comments.

No. 96.—The Registrar will be asked to re-examine this question and to submit his recommendations as to suitable banks who may be entrusted with deposits from local bodies.

Nos. 97-98.—Government endorse these recommendations.

No. 99.—Government have ordered that the clause in periodic leases issued after the 27th September 1919 restricting transfer to non-cultivators is not to be enforced without the consent of Government. Such consent has so far been given only in two local areas. The Committee's recommendation is therefore on lines already followed by the Government of Assam.

Nos. 100-102.—No remarks.

No. 103.—Government endorse this recommendation

No. 104.—This will be considered in due course.

No. 105.—This question in temporarily-settled districts has not hitherto been regarded as urgent, but it will be re-examined in the light of the Committee's remarks.

Nos. 106-109.—No remarks.

Nos. 110-113.—This Government have no comments to make, but await the advice of the Central Committee on these recommendations.

Nos. 114-115.—No remarks.

Nos. 116-120.—Government can endorse some of the recommendations but would prefer to await the result of their examination by an expert body.

No. 121.—Government will consider the suggestion about leasing out jungly grazing reserves, for cultivation for two or three years to rid them of the jungle.

No. 122.—Experiments on cattle fodder are being made and demonstrations undertaken by the Agricultural Department.

No. 123.—Expert opinions so far received do not favour castration and inoculation work being undertaken by any but well trained men, but the matter will be further reconsidered in the light of the Committee's present suggestion. Steps will be taken as far as possible to urge the local boards to increase their veterinary staff.

No. 124.—No remarks.

No. 125.—Government endorse this recommendation.

No. 126.—No remarks.

No. 127.—Government agree.

No. 128.—Government await the result of action, if any, taken by the Government of India.

Nos. 129-135.—No comments.

No. 136.—Government endorse this recommendation.

Nos. 137-139.—No remarks.

No. 140.—Government propose to examine this suggestion.

No. 11.

LETTER FROM THE SECRETARY TO THE GOVERNMENT OF BIHAR AND ORISSA, FINANCE DEPARTMENT, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. 6668-F. R., DATED THE 13TH OCTOBER 1930.

........................I am directed to forward copies of certain comments made on the Provincial Committee's Report by the following officers:—

Registrar of Co-operative Societies,

Director of Industries, and

Director of Agriculture.

As already stated, these comments should not be regarded as embodying the considered views of the local Government. At the present stage the local Government are not in a position to do more than to offer the following provisional observations on a few of the recommendations of the Committee—

Paragraph 490 (*5*).—It is of importance to bear in mind the risks attending the storage of grain, to which the Director of Agriculture refers.

Paragraph 490 (*9*).—The Registrar of Co-operative. Societies has expressed the view that the training of official and non-official workers cannot be further improved without financial assistance from Government, While Government agree that the need for improvement in the training of these workers is very great and has been rightly emphasized by the Committee, the poverty of this province precludes them from holding out much hope that help will be forthcoming from provincial revenues.

Paragraph 490 (*15*).—The local Government are inclined to endorse the views expressed by the Registrar in regard to this recommendation.

Paragraph 490 (*18*) *and* (*22*).—These extremely important recommendations of the Committee will call for mature consideration. Government are not prepared at present to express even a provisional opinion on them, beyond observing that they recognize that there is much force in the difficulties urged by Mr. Hodge in his dissenting note.

Paragraph 490 (*19*) *and* (*20*).—Government do not foresee any serious difficulty in giving effect to these recommendations, subject to the *caveat* entered by the Director of Agriculture in regard to the indiscriminate financing of land "improvements". The Committee is correct in assuming that Government do not impose a fixed maximum limit of Rs. 5 an acre in distributing agriculturists' loans. It has always been recognized in recent years that it is desirable to advance *takavi* liberally when seasonal calamities occur. Whether the maximum limit should be fixed at Rs. 10 an acre is somewhat doubtful. If a limit is to be imposed at all, it should probably vary with the circumstances and with the type of land for which the advance is required. It might be possible to work out an approximate scale on these lines. There would probably be no objection to fixing two years as the ordinary period for the repayment of the loans, but generally speaking it would be undesirable to allow any extension of this period. The question whether agriculturists' loans can be given for the purchase of brood lac requires legal examination. The local Government agree with the Committee that the Co-operative Department is not a suitable agency for the distribution of *takavi*.

Paragraph 492 (*24*).—Government agree with the Committee that there is scope for further examination of the possibilities of developing cottage industries in rural areas.

Paragraph 492 (*28*).—As observed by the Committee, the experiences of the Industries Department in providing credit for the replacement and extension of business have not been encouraging. It is doubtful how far that Department could usefully co-operate with the regular banks in this matter.

Paragraph 492 (*29*).—The local Government do not think that the province is now ready for the starting of an Industrial Bank with Government assistance. This problem might, however, be approached by an all-India body such as the Imperial Council of Agricultural Research.

Paragraph 494 (*40*).—The local Government were recently consulted by the Government of India on a proposal that cheques should be used instead of bill forms for Government payments at branches of the Imperial Bank of India, but they were unable to concur in this proposal. A copy of their letter No. 1307-F. R., dated the 23rd June 1930, is enclosed.

Paragraph 495 (*46*).—The local Government endorse the views expressed by the Registrar on the proposal that central and provincial banks should issue their own cash certificates.

Paragraph 497 (*61*).—Government agree with the Committee that it is desirable that the record of rights should be more frequently revised. The Legislative Council, however, has in recent years been opposed, to revisional settlement operations, and Government are doubtful whether there is much prospect in the near future of securing their assent to this proposal.

Views of the Registrar of Co-operative Societies on the recommendations of the Bihar and Orissa Provincial Banking Enquiry Committee.

Improvement of agricultural credit (paragraph 490.)

1. *Separation of the business of central banks into short-term and long-term business (paragraph 296).*

I am in full agreement with this recommendation subject to the remarks below and have already drafted a set of rules, now under examination, to govern financing by central banks including recommendations for the separation of long-term and short-term accounts. The unsatisfactory position of most of the central banks in this province owing to non-recovery of loans advanced by them is in my opinion primarily due to the grant of loans for long-term purposes repayable within a period which is insufficient for the borrower to save the amount of each *kist* out of his annual earnings. In the early days of the co-operative movement the redemption of the agriculturists' debts was placed in the forefront of the objects to be achieved, in spite of the fact that the amount of long-term money available was almost negligible. It was therefore impossible for the financing agency to allow the borrower a sufficiently long time in which to repay the loan, with the inevitable result that he was forced either to default or to indulge in further borrowing in order to repay the *kist* of his previous loan. The separation of long-term and short-term loans will not in itself afford a remedy, and the extension of the period of repayment of the former would be financially dangerous as the central banks are not at present in possession of long-term money which they can utilise for the purpose. This recommendation must, therefore, be considered along with recommendation 8 below.

2. *Extension of cash credits for primary societies (paragraph 251).*

This recommendation is in accordance with the policy of the department, a resolution of similar effect having been passed at a Co-operative Conference held in November 1928. Steps are being taken to extend the cash credit system as widely as is possible and draft rules regulating the conditions under which such cash credit can be granted to societies have been prepared and are under examination.

3. *Raising of part of the capital required for short-term loans by means of short-term bills (paragraph 278).*

Prima facie, this recommendation appears to be a suitable one but detailed consideration is required before it would be advisable to give effect to it. The views of the Provincial Bank are being obtained and the matter will be considered further when they are received.

4. *Restricted use of collateral security for short and medium term loans (paragraph 247).*

This recommendation accords with the present policy of the department. There has, I consider, been far too great a reliance in the past

upon material, and particularly landed, assets in the granting of co-operative loans, and the fact that the basic security of such loans is moral rather than material and lies in mutual knowledge and confidence has been lost sight of. Short-term loans for agricultural needs should in fact always be granted, upon the basis of the borrower's capacity to repay, out of the profits of his harvest and not on the basis of his landed property. I have been bringing this principle to the notice of co-operative banks and societies as widely as possible. Provided that it is strictly followed, I agree with the view of the Committee that it will ordinarily be unnecessary to enforce collateral security for any except long-term debts.

5. *More grain golas in Chota Nagpur and Orissa* (*paragraph 308*).

The experience of the department in regard to organisation of grain golas in Bihar, where their working has generally been unsuccessful and even disastrous except in aboriginal areas, *e.g.*. the Santal Parganas, would appear to show that they are unsuitable for that area. This is probably largely due to the improvement of transport facilities. In Chota Nagpur and Orissa such golas have not proved unsuccessful provided that they have not undertaken purchase and sale of the members' produce. I therefore, endorse this recommendation of the Committee.

6. *Some extension of the normal period for long-term loans* (*paragraph 298*).

Please see 1 above. I agree that an extension in such cases is vitally necessary, as the amount of such loans previously granted renders it impossible for the borrowers to repay the instalments within the term now fixed. It is, however, essential to add the proviso that for the purpose of such loans long term finance is made available. An extension of the term of the loans without the necessary long term finance would obviously be extremely dangerous. It is also essential that any such extension should be preceded by a very close and careful scrutiny of every individual loan. Action with a view to such extension was in fact taken by the department in 1927 with very unfortunate results, since the majority of the central banks utilised the opportunity to carry out wholesale "revisions of kists" (covering all kinds of loans alike) which were in most cases immediately followed by further defaults.

7. *Redemption of mortgaged land by degrees* (*paragraph 303*).

I am in general agreement with the views of the Committee in this connection and invite a reference to paragraph 24 of report of the Committee on Co-operation in Burma in 1928-29, where it is held that it is rarely advisable to redeem old debts unless the debtor makes a substantial contribution himself and where a sum is required to transfer to the society a debt bearing a usurious rate of interest the borrower should be made to show the sincerity of desire for repayment by selling any superfluous property which he can dispense with. I am strongly of opinion that the policy of undertaking the wholesale redemption of debts by means of co-operative loans has been largely responsible for the difficulties in which the movement is at present involved and that the utmost precaution should be exercised in future in the granting of such loans which must be very strictly limited according to the extent of the long-term finance available.

8. *Raising of capital for redemption of debt by debentures issued by the Provincial Bank (paragraph 343).*

As I have already stated above some step is indispensable for placing the financing of long-term loans on a sound basis and I agree with the Committee that the floating of debentures by the Provincial Bank appears to offer the most suitable solution of the problem. An application from the Provincial Bank to this effect has in fact already been received and the matter is now under consideration.

9. *Improved training for official and non-official workers (paragraph 291).*

I thoroughly endorse the Committee's recommendation. Steps have recently been taken to provide as efficient a course of training at the Sabour and Cuttack Institutes as is possible within the limited means available to the Co-operative Federation. The requisite funds are obtained by a small levy upon the affiliated co-operative societies and nothing further can be done to render the training more efficient without financial assistance from Government. The levies already imposed on co-operative societies for audit, propaganda and training impose a very heavy tax which is, I believe, higher than elsewhere in India. It is not feasible, therefore, to incur increased expenditure upon these Training Institutes without outside assistance.

10. *Less interference by central banks with primary societies especially in grant of short-term loans (paragraph 288).*

The principle contained in this recommendation is sound but in the present state of the movement the recommendation is, I fear, impracticable. In the vast majority of agricultural credit societies in this province the Punches themselves monopolise the major part of the loans and are generally the worse defaulters. Until the ordinary members of such societies have been sufficiently educated in co-operative principles to guard their own interests the removal of control from the central banks in the matter of granting loans would make the exploitation of the ordinary members by the village Punches even more complete than at present. I may note, however, that the introduction of the cash credit system will, to some extent, provide the freedom of interference advocated by the Committee.

11. *Detailed examination of reasons for higher rates of interest (paragraph 281).*

I have already instituted preliminary enquiries into the large margin between the borrowing and lending rates of central banks in this province. It appears to be probable that the fund, which the existence of this gap creates, is largely expended on the payment of dividends on shares particularly upon preference shares, in building up reserves and other funds, *e.g.*, building funds, in payment of travelling allowance, etc., to honorary workers, and in meeting establishment expenses. The enquiries hitherto made, however, appears to show that the working capital of central banks in Bihar and Orissa is low while the cost of management in proportion to

the working capital is very high. The margin between the borrowing and lending rates is higher than elsewhere, and the profit is low although the dividends paid by the banks and the amount allocated to reserve and other funds are not higher. The multiplication of small central banks in Bihar and Orissa, involving a proportionate increase in the management cost, and the system of preference shares probably both contribute to these results, but a further important factor will probably be found to be the high contribution made for development, training, propaganda and education by the central banks in this province in comparison with other provinces, where the major portion of such expenditure is borne by the local Government. A thorough and systematic enquiry which will take into consideration not only the existing financial strength of the central banks in Bihar and Orissa in comparison with the financial strength of the central banks in other provinces but also the difference in the constitution and function of such banks would be required to arrive at definite conclusions on this point and to devise methods by which this margin between the borrowing and lending rates can be reduced. Such an enquiry may well be made by the Committee on co-operation which is proposed to be appointed. I do not, however, agree that a wholesale reduction in the rate of interest on co-operative loans even if it were to be found possible would be advantageous to the ordinary cultivator. Cheap credit is very dangerous when accompanied by an inadequate realisation of its proper use, and I fear that the comparative cheapness of co-operative loans and the ease with which they have been obtained have not infrequently tended to encourage a habit of borrowing for unproductive purposes. The present aim of the department is that the co-operative organization should provide credit to the agriculturist at a reasonable rate but not so markedly below the local rate as to encourage reckless borrowing. Thus, for example, in backward areas where the rate charged by mahajans is 25 per cent. or upwards the rate of interest on co-operative loans is kept so far as possible at not less than 18¾ per cent. The result of this policy is a gradual reduction in the local rates of interest charged by mahajans and such reduction has been accompanied by a similar reduction in the case of co-operative loans. Thus in many areas in Bihar societies now give loans to their members at 12½ per cent. instead of 15⅝ per cent., which was previously the usual rate. While I agree, therefore with the recommendation of the Committee that an enquiry into the reason for the high rates is advisable, it does not necessarily follow that the existing rate of interest charged upon co-operative loans is excessive or that it should be immediately reduced.

12. *Expediting liquidation cases and publishing results (paragraph 255).*

I agree with this recommendation, which is in accordance with the policy of the department. Steps have already been taken to appoint whole-time liquidators in order to expedite the disposal of liquidation cases and an increase in the number of such appointments is only awaiting a solution of the difficulty of financing the requisite advances to such officers. This matter is now pending with Government. I also agree that it is desirable that facts and figures regarding liquidated societies should be published as widely as possible, particularly with a view to showing that no practical risk is involved in the acceptance of unlimited liability

13. *Experiment in branch banking (paragraph 306).*

To branch banks have already come into existence and the establishment of such branches will perhaps provide a solution of the difficulty now being experienced owing to the existence of a large number of small independent banks situated in out-of-the-way places.

14, *Concentration mainly on agricultural credit societies (paragraph 254).*

I am in full agreement with this recommendation, which is now the policy of the department. In particular, I am strongly of opinion that societies of special types and for special purposes should only be organised in exceptional circumstances.

15. *Creation of a board to advise the Registrar (paragraph 313).*

Provided that the functions of the board are solely advisory and that it is concerned only with banking questions, the constitution of such a body would perhaps not be open to serious objection, though I doubt whether it would prove to be of any great value. It has to be borne in mind that co-operative banking differs in many fundamental respects from ordinary joint stock banking and the advice of a body constituted as suggested by the Committee, though sound from the point of view of ordinary banking, might easily be detrimental to co-operative banking. It has also to be remembered that although in the present circumstances it is necessary for Government to exercise control over the movement through the person of the Registrar, the ideal to be aimed at is that the movement should ultimately be self-controlled. The appointment of such a body outside the movement would, therefore, be in my opinion a retrograde step and might be strongly resented. I would suggest that if a Provincial Banking Board is appointed as proposed by the Committee the Registrar of Co-operative Societies should certainly be a member and in that capacity would be enabled to consult the Board on banking questions whenever he needed advice, but that the Board should not be given any closer connection with the co-operative movement and should certainly not have the right of scrutinising any instructions issued by him or of reporting on his annual report as suggested by the Committee.

16. *A further enquiry by a special committee (paragraph 314).*

Government have already decided to appoint a Committee in 1931-32.

17. *Land Mortgage Banks (paragraphs 326-340).*

As the Committee do not think it desirable to add to the burden of the Registrar of Co-operative Societies by placing the administration of such Banks in his hands I am not closely concerned with this recommendation, but I agree with the Committee that it would be unsafe for existing central banks to take up business of this nature and that such business should be carried out by a different agency.

18. *Registered rural Mahajans (paragraphs 410—419).*

This recommendation also does not immediately concern the Co-operative Department. My personal views incline to accord with those expressed by Mr. Hodge in his dissenting note. I fear that such registered Mahajans while evading the conditions of registration would utilise to the full the facilities accorded by it and would thereby exercise a still greater control over their clientele. To ensure even a superficial compliance with the conditions of registration considerable expenditure would be required upon an inspecting and auditing staff and such expenditure might be much more usefully devoted to the inspection and supervision of rural co-operative societies which is the crying need of the movement in this province.

19 and 20.—Do not concern this Department.

Improvement of Commercial Credit (paragraph 491.)

21. *Licensed warehouses.*—This proposal is now under consideration and I am not yet prepared to give my considered views on so important a recommendation without further examination. While such warehouses, if successfully organised, would undoubtedly prove of benefit to the agricultural classes the risks attending their working are very considerable. Apart from the constant danger of speculation and extortion to which co-operative enterprise of any kind already offers great opportunities, the danger of loss through fire or pests cannot be disregarded. A brief note on the establishment of licensed warehouses submitted by the Deputy Registrar of Co-operative Societies is enclosed herewith. The existence of a system under which the agriculturist can store his crop and borrow upon it against its future sale when prices have risen would of course be of the greatest assistance to him, but it would be necessary for Government to finance the institution for the working of such warehouses in the first instance.

22 to 29.—Do not concern this Department.

Improvement of consumers' and miscellaneous credit (paragraph 493).

30. *Multiplication of co-operative credit societies for professional men on limited liability (paragraph 165.)*

31. *Co-operative Credit Societies among employees (paragraph 366).*

32. *Extension of urban co-operative societies in towns (paragraph 309).*

There is no objection to the acceptance of these recommendations (Nos. 30, 31 and 32). The prospect of the successful organization of urban banks in places where such banks do not already exist is now under consideration.

Of the remaining recommendations those which concern this Department are discussed below.

46. *Home saving safes should be distributed by co-operative and other banks (paragraph 463).*

This system of encouraging thrift has already been given a trial in this province but did not meet with any marked success in the villages.

I understand that the Bank of Behar in Patna introduced a similar scheme some 4 years ago but the scheme does not appear to have met with any considerable support from the public Such a scheme presupposes a state of banking development and thrift which is generally lacking and I do not consider that it has much chance of success at present except perhaps in urban centres. The Muthia system (by which handfulls of rice are set apart on ceremonial or other occasions, the grain being sold when sufficient quantity has accumulated and the proceeds deposited with the society) has proved a more acceptable method of saving in rural areas.

With regard to the recommendation of the Committee for the issue of cash certificates by central banks, I foresee the necessity for great caution. Central banks obviously do not command the same credit as is enjoyed by Government Postal Cash Certificates and in order to induce people to invest savings in cash certificates issued by co-operative banks a higher rate than that allowed by Government would have to be given and such rate can hardly be less than 6½ per cent. If cash certificates were only issued for small denominations, as suggested, the cost of maintaining records, etc., would be proportionately heavy. I understand that the majority of Postal Cash Certificates issued are for denominations of Rs. 100 and above, from which it would appear that such certificates are not being utilised for the investment of small savings. If this is the case it is doubtful whether the issue of cash certificates of small denomination by central banks would be successful. The large number of Central Banks would militate against the success of the proposal. In view of these and other drawbacks the All-India Provincial Banks Association has decided that the issue of cash certificates, if introduced in co-operative Banks, should be confined to Provincial Co-operative Banks only. At present, however, all the Provincial Banks of the country are able to obtain all the finance they require at lower rates than those which they would be compelled to allow on such cash certificates in order to make them more attractive than the Postal Cash Certificates, and it is therefore doubtful whether they will be willing or able to give effect to the scheme. For these reasons I am unable to endorse the recommendation of the Committee and would prefer that the Postal Cash Certificates should be issued for lower denominations than at present so as to encourage small savings in rural areas. Propaganda for investment in such certificates might well be carried on through the co-operative organization.

Provincial and Divisional Banking Boards (paragraphs 499—502).

As already indicated, I am not in favour of giving these Boards, if created, any close connection with the co-operative movement, though a representative of the Co-operative Department should certainly be a member. I observe, however, that while the Committee provide for representatives of the Imperial Bank and Joint Stock Banks on the Provincial Banking Council no such provision is made for the representation of the Provincial Co-operative Bank. This omission was possibly due to oversight or it may have been considered that the Registrar of Co-operative

Societies would be a sufficient representative. Whatever may be the cause of the omission I recommend that if such a Council is constituted, not only the Registrar but also a representative of the Provincial Co-operative Bank should be among its members.

Note of the Deputy Registrar of Co-operative Societies on the establishment of Licensed warehouses.

The Banking Enquiry Committees in different provinces have recommended the establishment of licensed warehouses to enable the cultivators to get better prices for their agricultural products. The general idea underlying the system is that the cultivators would stock their products in such warehouses and would get an advance against the security of the goods stocked, equal to a certain percentage of the market prices. As the poorer cultivators are compelled to sell a good portion of their products at harvest time in order to meet the demands of the mahajans and the rent to the landlord, they lose a considerable amount owing to the prices at harvest time being very much lower than the prices in April and May. In abnormal times such as the present year when there is a phenomenal slump in the prices of jute and paddy, the existence of such warehouses would have afforded enormous relief to the cultivators. They would not only have enabled the cultivators to tide over the present difficulties but would have greatly assisted in stabilizing the prices and in this way relieve acute distress among the cultivating class. In the recommendations of the Royal Commission on Agriculture, stress has been laid on the importance of assisting the ryots in the matter of marketing their products. Licensed warehouses are recognised as one of the best means for achieving this object.

These licensed warehouses can be brought into existence if Government offered to central banks (1) a long term loan free of interest of about Rs. 10,000 for every warehouse they can establish, for the erection of the godown, (2) a small subsidy to maintain a clerk of, say Rs. 50 per month. These warehouses would, in my opinion, enable the central banks to gain the necessary experience to organise co-operative sale societies on sound lines and in my opinion it should be possible after five years, to do without the subsidy for the maintenance of the clerk. It has been recognized that credit societies by themselves cannot afford the necessary relief to the cultivators because they lose as much, if not more, by the low price they obtain for their products as by the high interest they have to pay to the mahajans. In other agricultural countries marketing societies are considered to be one of the most important forms of co-operative activities. In India, the importance of marketing societies cannot be over rated, but their organization is beset with peculiar difficulties. Without assistance from Government these cannot be brought into existence. I am of opinion that there is urgent necessity of establishing a small number of such warehouses as an experimental measure. In Orissa there is a possibility of starting one or two immediately provided the assistance indicated can be secured from Government.

Views of the Director of Industries.

This Department is only directly concerned with paragraph 492 of the Provincial Banking Enquiry Committee's report. The brief note appended below is, therefore, confined to an examination of the Committee's suggestions and recommendations as embodied in the above paragraph and the chapter on industrial credit.

Financing cottage industries:

It is perhaps desirable as a preliminary to a consideration of the subject of financing cottage industries, to have a clear idea of what the term "cottage industry" means and also the character of the people engaged in these industries. The Industrial Commission has (paragraph 206 of their report) defined as follows:

> "Industries carried on in the homes of the workers, which we have designated as 'cottage industries'. In these scale of operation is small and there is but little organization so that they are, as a rule, capable of supplying only local needs."

In Germany, however, there is a more clear and practical distinction drawn in the classification of various industries. Enterprises are classed as hand-work if the number of employees does not exceed ten persons irrespective of whether they are rural or urban and whether or not machinery is used. Thus, for all practical purposes the division is into large and small concerns. The latter represents broadly those small businesses in which technical skill and control by the operative play a larger part than machinery. In other words, they are the still individualised workshops and small factories as opposed to the large joint-stock units in which both production and organization are standardised. Briefly, then, in Germany the following three classes of manufactures are recognised:

1. "Out work", *i.e.*, arts and crafts not using mechanical power.
2. "Hand work" when the skill of the individual still predominates.
3. "Industry" or mass production.

As regards the nature of these "industries" it is best illustrated by the figures from the 1921 census of occupation quoted in the Committee's report in paragraph 171. The enumeration of a comparatively large number of weavers, tanners, carpenters, basket makers, potters, tailors, shoe makers, masons, barbers, washermen and so on clearly shows that the so-called "cottage industries" are associated with the supply of the primary needs of the rural population in regard to food, clothing and shelter, etc.

As regards the character of the individual workers, engaged in these industries, the Industrial Commission has the following comment to make:

> "The workers are usually uneducated and without a knowledge of anything regarding their trade, except what can be acquired locally. Their lack of education denies them access even to the most elementary technical literature, and they can be influenced only by ocular demonstrations in their neighbourhood."

Financial assistance to cottage industries.

From the foregoing, it is clear that so long as the problem of financial assistance is viewed from the point of individual worker's needs and

wants no practical or sound scheme can be devised. It is impossible to treat each individual worker as an entity by himself and build up a satisfactory credit system on such an impractical basis. The obvious course is to unify these individual workers into groups or units according to the industry or craft. The best form of these groups is undoubtedly the formation of industrial co-operative societies. The second alternative would be to finance master artisans or craftsmen who would, in turn, finance the individual workers within their own area and market their goods. Of these two methods, I would certainly favour the first.

One of the main difficulties in the success of the industrial co-operative societies of cottage workers lies in the fact that the products of the societies cannot be marketed advantageously by them. The workers themselves have neither the business capacity nor the requisite knowledge of the trade requirements. They are very often dishonest and disloyal to the co-operative ideal with the result that sooner or later, they find their way into the clutches of the 'mahajan' even though they may be full-fledged members of a co-operative society. The managers appointed for these societies are also not men of any great business or organising capacity. It is for this reason I am inclined to hold the view that the formation of primary industrial co-operative societies alone will not yield the desired result. There must be a bigger and wider organisation at the back of these societies which will be in a position not only to finance the individual societies but will also be able to dispose of their products in the most advantageous manner. I would, therefore, suggest that these societies be affiliated to a federation or a wholesale co-operative society to whom should be entrusted the task of looking after the financial needs and requirements of its affiliated members on sound commercial lines and distribution of their products in the market. The fundamental concept in this proposal is that it is fallacious to organise only the producing end on co-operative lines without a corresponding organisation of the consuming end to dispose of the manufactured goods. The history of the co-operative wholesale societies in England has proved conclusively that the old idea of the superiority of production which led the co-operative movement to organise labour first and search for consumers afterwards is basically unsound and certain to come to grief. The modern industrial co-operation has succeeded only by organising and rewarding the consumers and afterwards employing labour. As some one pertinently said "Economically speaking, the powers of producing and consuming are to the normal human being as left hand and right. Or, better still the hands are the producers and mouth that eats and the eyes that see the beauty of the world are consuming powers, and those that feed the desires of the heart by which the hands are governed."

As a concrete example of the application of this principle in this province, I may cite the instance of the manufacture of hand-woven textiles by the Industries Department on a fairly large scale. The first step taken was the introduction of improved looms, known as fly-shuttle slays amongst the weavers of the province and to teach them to weave finer counts and cloths of varied and improved texture. The second step was to adapt the products of handlooms to modern taste and requirements from the point of view of improved designs and utility. With this end in view, European designers were engaged who have produced a large range of simple designs of a pleasing character applicable to furnishing

fabrics which could be woven without much difficulty on the simple appliances possessed by the weavers. Through agencies in foreign countries and propaganda and publicity at home, it has been possible to create an appreciable market for these goods in almost every country where there has been an attempt to place them for sale. At first the business being small, practically all manufacture was confined to the Cottage Industries Institute at Gulzarbagh but as the business grew, it was found necessary to plan an extension of manufacture in the villages. This was done by stationing a weaving supervisor in areas where there are colonies of weavers to whom the patterns were thoroughly explained and raw materials issued. The wages were fixed on piece rate basis. As the business grew still further, it was found necessary to induce master weavers of the locality to take up the organisation of manufacture as middle men on the lines on which the departmental work was being carried on. Within a short time six of these master weavers or agents have taken up the manufacture of the textiles. Recently a co-operative society has also been formed and it is hoped that in time the society will grow from strength to strength to a point where it can take over the marketing of these goods direct in the home as well as foreign markets quite independent of Government.

This unique experience of this department, in my humble opinion, illustrates the various factors and stages which are essential in organising cottage industries on co-operative lines. Given proper organisation, finance, technical knowledge and business ability there seems no reason why flour, rice, *dal*, oil milling, hand loom weaving, silk-weaving, boot and shoe making, tailoring, shirt and coat making, tobacco manufacturing, hosiery knitting, cabinet-making, basketing and so on could not be organised successfully on the same lines as the Cottage Industries Institute has been able to organise the manufacture of hand-woven textiles as described above.

I suggest, therefore, that a trade organisation styled as Co-operative Wholesale Society be set up by Government in conjunction with the apex bank and central banks with a nominal capital of, say 10 lacs of rupees, for organising and financing primary industrial co-operative societies throughout the province. Professor Charles Gid of the University of Paris who is an authority on the subject has stated, "Consumers societies do not require large capital for the reason that by their sales the capital renews itself rapidly, and even daily, as in bakers' shops, so that a small capital is enough for a large business." In the first few years, before the Society 'got going' with the organisation of producers' and sales societies, there may be some losses to bear which will have to be recouped by Government. The control of Government over the wholesale society should be indirect, *i.e.*, through its Board of Directors. The executive functions must be left in the hands of a competent manager recruited, if necessary, from abroad from the staff of one of the wholesale consumers' societies which have been successful to a remarkable degree in England. I am sure that such a society alone can serve the inter-dependent functions of production and consumption without which any organisation of cottage workers will be barren of result.

As regards warehouses, the proposed wholesale society will no doubt establish warehouses in suitable centres as it may find necessary. Such details may be left to the wholesale society to work out after due consideration and study of their problems first hand.

Financial assistance to organised industries.

(26) The proposal is in the nature of extension of commercial credit. The banks will no doubt accept the recommendation if they find that financing these industries is likely to be profitable to them.

(27) The proposal is certainly worth further consideration and thorough investigation.

(28) It is doubtful if any of the commercial banks will shoulder the credit risk involved in such financing. The Imperial Bank has practically stated that once a cash credit or loan is guaranteed by Government, the bank is not even prepared to follow up the borrower's progress in the same manner as it would follow up the progress of its direct clients. Whether the shroffs would do otherwise is a matter which can only be determined by making an experiment which might be tried.

(29) I am not opposed in principle to an industrial bank but I still maintain that the time is not ripe yet for establishing a bank of this nature. Multiplicity of credit institution should be discouraged. The aim should be to link up the indigenous banking system with the organised commercial banks. The latter should gradually expand their services as the organised commercial banks have done in western countries. This will be possible only when India has a reserve bank brought into existence. I hold the view that Government pioneering and demonstration on the lines on which Japan worked and Mysore is working will be necessary for a long time to come. The following extract from an authoritative article on Japan's industrial development will illustrate what is meant by pioneering and demonstration by Government.

" . . . . . the second advent of Western nations introduced to Japan the products of an industrial civilization centuries in advance of her own from the point of view of utility, though no-wise superior in the application of art. Immediately the nation became alive to the necessity of correcting its own inferiority in this respect. But the people being entirely without models for organization, without financial machinery and without the idea of joint stock enterprise, the Government had to choose between entering the field as an instructor, and leaving the nation to struggle along an arduous and expensive way to tardy development. There could be no question as to which course would conduce more to the general advantage, and thus, in days immediately subsequent to the resumption of administrative power by the Emperor, the spectacle was seen of official excursions into the domains of silk-reeling, cement making, cotton and silk spinning, brick-burning, printing and book binding, soap boiling, type casting nad ceramic decoration, to say nothing of their establishing colleges and schools where all branches of applied science were taught. Domestic exhibitions also were organized and specimens of the country's products and manufactures were sent under Government auspices to exhibitions abroad. On the other hand, the effect of this new departure along Western lines could not but be injurious to the old domestic industries of the country, especially to those which owed their existence to tastes and traditions now regarded as obsolete. Here again the Government came to the rescue by establishing a firm whose functions were to familiarise foreign markets with the products of Japanese artisans, and to instruct the latter in adaptations likely to appeal to Occidental taste. Steps were also taken for training women as artisans and the Government printing bureau set the example of employing female

labour, an innovation which soon developed into large dimensions. In short the authorities applied themselves to educate an industrial disposition throughout the country, and as soon as success seemed to be in sight, they gradually transferred from official to private direction the various model enterprises, retaining only such as were required to supply the needs of the state.

The result of all this effort was that whereas, in the beginning of the Meijiera, Japan had virtually no industries worthy of the name, she possessed in 1896 that is to say, after an interval of 25 years of effort no less than 4,595 industrial and commercial companies, joint stock or partnership, with a paid up capital of 40 millions sterling."

Views of the Director of Agriculture.

Paragraph 490, sub-heads (1), (2), (3) and (4):—No remarks.

Sub-head (5):—The storage of grain in Chota Nagpur, Orissa, and generally in this province is attended with considerable difficulties. The climate is humid with the break of the rains right through the year until about the end of February. If grain is stored in quantity without being thoroughly dried very considerable damage may occur. I have personally seen numerous cases of such damage during the last ten years. This applies particularly to wheat, but other seeds are liable to be damaged in a similar manner. I am informed that storage of paddy and other food grains in large quantities at the Mental Hospital, Kanke, has given the authorities very considerable trouble. So, in my opinion any recommendation regarding the storage of grain in this province should be very guarded. The indigenous method is to store grain in small quantities surrounded in dried bhusa.

Sub-heads 6 to 16:—No remarks.

Sub-head (17):—Establishment of a Land Mortgage Bank under Government: I can claim no knowledge on financial questions but at one time I had the opportunity of seeing the operations of the Land Mortgage Bank in Egypt, which eventually came to grief losing a large amount of money. In my opinion the utilization of public funds in this class of work is a very hazardous experiment.

Sub-head (19):—Local officers can do much in bringing to notice the possibility of schemes involving capital improvement for which loans under the Land Improvement Loans Act can be given. All these local capital improvements such as bunding irrigation schemes, minor irrigation works, etc., should be preceded by the fullest enquiry by the experts of the Departments concerned. India is full of monuments where money has been wasted by the attempt to construct capital improvements without sufficient technical knowledge.

Paragraph 491:—No remarks.

Paragraph 492, sub-head (24):—In my opinion if means and staff were available one of the most promising subsidiary industries that could be started is in encouraging fisheries. Propaganda work in the villages combined with distribution of fry would, in my opinion, lead to very practical results. Another possible line of work is that in utilising the produce of tari palm for lengthening the sugarcane *gur* making season. This Department is conducting experiments on this line at the request of the Honourable Minister for Local Self-Government.

Sub-heads (25) to (29):—No remarks.

Paragraph 493:—No remarks.

Paragraph 494, sub-heads (34) to (39):—No remarks.

Sub-head (40):—I am entirely in favour of introduction of the practice of paying employees of Government by cheque.

Sub-heads (41) to (43):—No remarks.

Paragraph 495:—Encouragement of investment:—I consider that the recommendations under this paragraph are of the greatest value. Post Office Savings Bank Accounts for the encouragement of thrift should be of the greatest value to India. There is undoubtedly a good deal of suspicion among illiterate classes which will have to be got over. Propaganda work in favour of depositing money at the Post Office, forms in my opinion the most practical method for general improvement in the villages.

Paragraphs 496 to 498:—No remarks.

Paragraphs 499 to 502:—The provision of a Provincial Banking Council is excellent, but it seems doubtful if the proposed Board would be practical even if it were possible for members to meet with any degree of regularity. The same remark applies with even greater weight to the proposed divisional Banking Boards.

LETTER FROM W. G. LACEY, ESQ., I.C.S., OFFICIATING SECRETARY TO THE GOVERNMENT OF BIHAR AND ORISSA, FINANCE DEPARTMENT, TO THE SECRETARY TO THE GOVERNMENT OF INDIA, FINANCE DEPARTMENT, No. 1807-F.R., DATED RANCHI, THE 23RD JUNE 1930.

SUBJECT:—Use of cheques instead of bill forms by Government.

I am directed to refer to Mr. Denning's letter No. D.-3117-A., dated the 16th November 1929, on the subject of the use of cheques instead of bill forms for Government payments at branches of the Imperial Bank of India.

2. In reply, I am to say that the local Government have consulted a number of officers under their administrative control and have given their careful consideration to the points urged in their replies as well as to those mentioned in the letter from the Government of India. The local Government regret that they have been unable to find themselves in agreement with the views of the Government of India in this matter and they have been forced to the conclusion that the proposed change would lead to disadvantages in more than one respect and should not be adopted.

3. The following are a few of the difficulties that the drawing officer will have to face in case the proposed change is made. In practice, there will in very many cases be at least a day's delay in cashing the bills, particularly when the drawing officer's office is situated at some distance from the treasury or bank, because the cheque issued by the treasury will apparently have to be brought back to the drawing officer for endorsement before it can be cashed. The delay will be accentuated if the drawing officer is absent from his headquarters. A possible method of relief in the case

of pay bills would be to issue post-dated cheques on the preceding day but even this may not meet the case of touring officers. Further, this method would not meet the same difficulty as regards other kinds of bills.

Complications are also likely to arise in case of loss of any cheque or of any clerical error occurring in a cheque.

4. From the point of view of the treasury officer and his staff the proposed change would hardly be an improvement. The local Government are not much impressed with the arguments advanced by the Imperial Bank in support of their view that the existing system is risky and unbusiness-like. No instances have up till now come to notice in this province of pay bills being fabricated. These bills are signed by the clerk in charge, the drawing officer, the treasury accountant and the treasury officer. It seems almost impossible to fabricate the signatures of so many officers. On the other hand, it would seem easier to fabricate a cheque which will contain only one or two signatures. It is true that the bill forms used are usually on thin and common paper, but this, instead of opening the door to easy fabrication, should really make erasures and fabrications more difficult than good thick paper such as is used for cheques. It will not also be always possible to issue cheques according to their consecutive serial number: a cheque may be spoiled, rendering it unfit for issue.

5. The local Government are doubtful whether the general use of cheques by Government would materially assist the extension of the banking habit. It is not intended that cheques will be issued to each individual employee of an office or to each applicant for a takavi loan and it is unlikely that the lower paid clerks and menials whose pay is drawn on consolidated bills will start banking accounts.

6. The introduction of the new system may be of convenience to the bank in some measure, but it would, as the Government of India have themselves anticipated, materially increase the responsibility and work of the treasury officer and would necessitate the appointment of extra staff in treasuries. It is estimated that the provincial revenues will be saddled with an extra recurring expenditure of not less than Rs. 1,300 a year (excluding leave and pensionary charges) at each treasury where there is a branch of the Imperial Bank. In return for this local Government would gain nothing, and in fact, as explained above, the new procedure would in certain respects be distinctly a change for the worse. His Excellency in Council considers, therefore, that this extra expenditure from the provincial revenues will be unjustifiable.

No. 12.

LETTER FROM A. McDONALD, ESQ., I.C.S., FINANCIAL SECRETARY TO GOVERNMENT, CENTRAL PROVINCES, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. C.9/454-R.X., DATED 26TH SEPTEMBER 1930.

In reply to your letter No. 2386, dated the 3rd September 1930, I am directed by the Governor in Council to say that the local Government does not wish to express any opinion on the Central Provinces Banking Enquiry Committee's report at this stage and prefers to await the Central Committee's report before formulating its views.

सत्यमेव जयते

APPENDIX II.

CONTENTS.

APPENDIX II.

Correspondence with Chambers of Commerce and other Associations and with the India Office regarding financing of foreign trade and restrictions on non-nationals.

LETTERS FROM THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, TO THE SECRETARY, THE FEDERATION OF INDIAN CHAMBERS (No. 316) AND THE ASSOCIATED CHAMBERS OF COMMERCE (No. 317), DATED THE 10TH SEPTEMBER 1929.

SUBJECT.—*Financing of Foreign Trade.*

I am directed to forward herewith for the information of the members of your Federation/Association a copy of a letter issued to the Chairman of the Exchange Banks' Association, Calcutta, on the above subject. Since many members of your Federation/Association, especially those engaged in the import and export trade, will be interested in the questions referred to in that letter, I am to request that their opinions may be ascertained and communicated as early as possible. It is desirable that these opinions should be supported as far as possible by facts and figures.

2. I am to add that no separate communication is being sent to the individual Chambers of Commerce who are members of your Federation/Association.

LETTER FROM THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, TO THE CHAIRMAN, EXCHANGE BANKS' ASSOCIATION, CALCUTTA, No. 318, DATED THE 10TH SEPTEMBER 1929.

I am directed to forward herewith for your information an advance copy of the questionnaire that will shortly be issued by the Indian Central Banking Enquiry Committee in regard to the financing of foreign trade. The Sub-Committee of the Central Banking Enquiry Committee which has been appointed to deal with this question would like to have the following further details in regard to the operations of exchange banks which have not been included in the questionnaire which will be issued to the public.

2. In the first place the Sub-Committee desire to obtain information as accurate as possible in regard to the finance that is required for the import and export trade of India, meaning by this trade the trade to and from the ports of India. If imports could be set off against exports, the finance required for this purpose would be the difference between the value of the imports and the exports. The Committee understand that in the case of a few firms the import and export obligations are thus set off and that in most other cases the finance required for the import trade has to be treated separately from the finance required for the export trade. As this is done mostly through Exchange Banks, the Sub-Committee would be grateful if you would be good enough to furnish them with all the available information at your disposal in regard to this matter, and also state what finance is required on the average for say £10,000 worth of goods and for what duration of time. If accurate information is not available the Sub-Committee would appreciate if an approximate estimate of the total finance required could be furnished. If any of the facts or figures furnished are to be treated as confidential, the same may kindly be indicated in your reply.

3. The Central Committee is dealing with the credit facilities given by banks of various classes like the Imperial Bank of India, the exchange banks, the co-operative banks and the indigenous and joint stock banks, to local industries, internal trade and agriculture. In dealing with this question, it will be necessary to have accurate information as to the extent to which the Exchange banks take a part in this financing. I am to request that information on this point may also be furnished in your letter supplying the figures and information asked for in paragraph 2 above. If the exchange banks, in addition to the facilities mentiond above, are also affording any assistance to any other class of banks in this country, information regarding such assistance may also be furnished.

Replies by the British Members of the Associated Exchange Banks to the Supplementary Questionnaire issued by the Indian Central Banking Enquiry Committee.

Question 1.—Describe the part played by the different classes of Banks and Bankers and Importing and Exporting firms in the financing of the Foreign Trade of India during the following stages:—

(a) EXPORT TRADE.—

(i)) *From the village to the Mandi.*

Answer.—From the village to the Mandi the export trade is financed by the Zemindars, Banias, and Co-operative Societies. The Imperial Bank of India and Indian Joint Stock Banks also help to some extent in financing in villages, as they lend money in Mandis against hypothecation of stocks in Commission Agents' and Exporting houses' godowns, who in turn lend to village producers against the latter's contracts to deliver produce at subsequent dates. The above Banks also lend money in Mandis against currency hundis and thus feed the market with money which goes to the villages for purchase of produce.

(ii) *From the Mandi to the exporting ports.*

Answer.—From the Mandi to the exporting ports it is financed by the Imperial Bank of India, Indian Joint Stock Banks and Exchange Banks. The Indigenous Banks and some of the Exchange Banks make advances against produce in Godowns but the Exchange Banks usually limit their accommodation to such firms who do export business. In Mandis the exporters usually take delivery of the produce through a shroff (guarantee broker) who finances the payments and the shroff will receive a demand draft on the exporter's firm drawn on their office at the port, signed by the firm's representative at the larger centres for the price of the commodity. He generally receives a commission of ¼ to ½ per cent. for this transaction. These drafts are purchased by the Indigenous as well as by the Exchange Banks and the Shroff thus receives funds to finance further transactions. The export is cared for by the larger export firms at the ports such as Ralli Bros., the Exchange Banks financing by the purchase of Foreign Bills, either with or without documents.

(*b*) Import Trade.—

(*i*) *From the importing ports to the distributing centres in India, such as Amritsar, Delhi, Cawnpore, etc.*

Answer.—From the importing ports to the distributing centres in India, it is generally financed by Exchange Banks, Indian Joint Stock Banks and big Import houses such as Ralli Bros. The goods are shipped to a port and the relative bills sent to an up-country Agency for collection. From the port the goods are railed up-country. The importers in the majority of cases pay these bills by means of loans granted by the Exchange Banks financing the bills against a margin of 20 per cent. of the value of the goods *plus* all import charges, with interest at Imperial Bank rate. Goods taken delivery of by the importers from their loan account are either sold for cash or on credit of from 2 to 4 months with interest at 6 per cent. or more per annum to dealers. The dealers exhibit the goods in their shops in the larger distributing centres and dealers from the villages come to those centres and buy for cash and/or on credit.

(*ii*) *From the distributing centres to the consumer.*

Answer.—From the distributing centres to the consumers it is financed by the Commission Agents (Arthias) acting as middle men. They buy for the dealers in larger villages, who in turn sell to the dealers in smaller villages, who sell to the ryots against the security of their promise to pay when the crops are harvested and sold.

Question 2.—What are the terms on which the financing of trade during the above stages is done?

Are any difficulties experienced in connection with the above financing and have you any suggestions to make for removing those difficulties and for improving in any way the existing financial facilities available for the movement of imported and exportable articles?

Answer.—In the case of the export trade the produce is bought on the threshing floor by carriers or zemindars to be carried and sold at the nearest market. Produce is also sold to Banias in liquidation of producers' debts and the Banias store the produce to sell at a time it can fetch the best price. In the Mandis the produce is pledged with the Imperial Bank of India and other Indian Joint Stock Banks or Commission Agents at rates varying from 6 to 9 per cent. per annum.

The Import Trade from port to Mandi is generally financed by Exchange Banks and also other Banks and big import houses at rates varying between 6 and 8 per cent. per annum. From the Mandi to the consuming centres it is financed by the Commission Agents at the rate of 6 to 9 per cent. per annum. The obvious disadvantage is the large number of middle men employed. Further the funds of Commission Agents remain locked up for unusually long periods. With further development of Banking the Commission Agent may be relieved of this burden and improved means of communication are tending to bring the producer direct into the market.

Question 3.—It has been suggested that the grower of produce in India does not get the full for his produce on account of the speculative buying and selling activities of firms and companies who deal in the export trade and by the control of prices by these and other bodies. What are your views on this suggestion? Please supplement your views by any facts and figures within your knowledge. Have you any observations to make with a view to ensure a better return to the growers of produce in India?

Answer.—There is a good deal of truth in the suggestion. The village producers are illiterate people and know very little about the trade and commerce of the articles they produce. They are afraid that if they themselves market the produce they will be cheated by a Commission Agent. Producers are heavily indebted to village Banias and Co-operative Societies and have to pay land taxes to the State at the time of the harvesting of their crops. In the circumstances the producer cannot but sell his produce on the threshing floor, when in accordance with the laws of supply and demand the produce is usually cheap. Later on the prices may go up but the produce is in the hands of others who have cornered it. That the producer may get a better return it is suggested that he should be educated and should at least be fully aware of the commercial history of the articles he produces. In the meantime it might be possible to arrange some method of disposing of his crops at market prices which might be done by a commercial agency which could receive his crop, on the lines of Grain Elevator Companies as in Canada, the Argentine, and elsewhere. These agencies would receive the crops of various ryots, and give a receipt to the consignors, stating thereon the trade of his crop and advancing him say 50 per cent. of its value, the balance being paid on the basis of the average price obtained from sales of the particular grade during the season less an agency commission. If the ryot had confidence in such an institution he could devote all his attention to the growing of his crops knowing that his interests as regards the sale thereof were being better looked after, and with better results than if he sold the crop himself. He would also have the satisfaction of knowing that he had obtained the same price as the other ryots for his crop.

Means of transport between the Mandis and the neighbouring villages should be improved and well guarded and so enable producers to come in direct touch with the Mandi.

Further to help them in their financial matters the establishment of *Land Mortgage Banks* is most essential. With the establishment of Land Mortgage Banks, selling agencies, improved means of communication and a certain amount of education it is probable producers would get a better return for their produce.

Chartered Bank of India, Australia and China.

National Bank of India, Limited.

Hongkong and Shanghai Banking Corporation.

Mercantile Bank of India, Limited.

Lloyds Bank, Limited.

Eastern Bank, Limited.

P. and O. Banking Corporation, Limited.

Letter from the Secretary, Indian Central Banking Enquiry Committee, to the Managing Directors, (1) The Bank of Baroda, Bombay; (2) The Bank of India, Bombay; (3) The Bank of Indore, Indore; (4) The Bank of Mysore, Bangalore; (5) The Benares Bank, Benares; (6) The Central Bank of India, Bombay; (7) The Indian Bank, Madras; (8) The People's Bank of Northern India, Lahore; and (9) The Punjab National Bank, Lahore, No. 335, dated the 17th September 1929.

I am directed to forward herewith two questions sent by a member of the sub-committee of the Indian Central Banking Enquiry Committee which was appointed to deal with the question of the financing of foreign trade of India. They were considered at a meeting of the sub-committee held at Calcutta towards the end of last month and it was resolved that certain specified Indian banks might be supplied with a copy of these questions and requested to furnish the sub-committee with their answers. I am therefore directed to request that, if your bank has no objection, replies to these questions may be sent to me as soon as possible.

List of Questions.

I. What are the difficulties experienced by Indian banks in developing foreign exchange business and what may be done to remove those difficulties?

II. What may be done to secure the starting of branches at some principal foreign centres of trade by some Indian bank or banks?

Letter from the Secretary, The Associated Chambers of Commerce of India and Ceylon, to the Secretary, Indian Central Banking Enquiry Committee, No. 370-33-A. C., dated the 12th September 1929.

I have the honour to acknowledge receipt of your letter No. 317 of the 10th instant and to state that as requested therein all members of the Association are being consulted in regard to the questions referred to in your letter to the Chairman, Exchange Banks' Association, Calcutta. I shall address you again as soon as the replies are received.

Letter from the Manager, Bank of Indore, Limited, to the Secretary, Indian Central Banking Enquiry Committee, dated the 21st September 1929.

Enclosed I have the honour to hand you my replies to the two questions received with your letter No. 335 of the 17th instant.

those difficulties ?

Answer.—I think this question is based on a wrong understanding of facts. Are there any Indian banks who are endeavouring to develop foreign exchange ? I do not know of any, so I am not able to mention any difficulties Indian banks are experiencing in developing that branch of banking business.

I should say one difficulty would be the absence of branches abroad. And this leads to the second question.

Question No. 2.— What may be done to secure the starting of branches at some principal foreign centres of trade by some Indian Bank or Banks ?

Answer.—In my opinion Indian banking is not yet sufficiently developed for foreign exchange banking. There are not many foreign exchange banks, and at present the few Indian banks that exist have not grown sufficiently in size and importance to enable them to spread branches abroad, even if they did wish to enter into a foreign exchange business, which, I think, they do not wish to do. Also, it is not usual for a bank doing an ordinary banking business to take up foreign exchange.

A bank must attain to a certain size and standard before it can safely extend to foreign countries. Capital is necessary for such expansion and a bank must have some standing and a considerable amount of funds before it can compete with other large and important exchange banks, like, for instance, the Chartered Bank of India, Australia and China, with over ten crores of rupees in capital and reserve and very large working capital.

Compare this with our largest Indian bank, the Central Bank of India, Limited, which has in capital and reserve roughly two and a half crores and quite a small working capital compared with the Chartered Bank. Next to the Central Bank comes the Bank of India and a long way after come a whole lot of small banks with quite insufficient funds and standing to enable them to open branches abroad and develop a foreign exchange business.

I think Indian banking (I refer to modern banking methods) has to grow and develop in its own way as banking has grown and developed in other countries, and I think it is gradually growing and developing. I do not see how any aid Government can give could force the growth. Banks live upon the confidence of the public and until that has been secured no great headway can be expected.

It seems to me that it would be quite possible for a group of wealthy Indian export and import merchants, say in Bombay, to start an exchange bank with the head office in Bombay and a branch in London, and I think such an undertaking would perhaps lead to the way for other Indian exchange banks. Exchange banking is a very profitable business if undertaken on sound lines. I think I am right in saying that exchange banks make larger profits than other banks.

Perhaps Government might help to some little extent in this direction by persuading some big Bombay merchants to co-operate for this purpose, and the Secretary of State might promise such a bank facilities for the purchase of Council Bills by placing the name of the bank on their starred list. This would give the bank a certain amount of "Izat" amongst other banks.

LETTER FROM THE SECRETARY, INDIAN BANK, LIMITED, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. C. R.-38-707, DATED THE 21ST SEPTEMBER 1929.

With reference to your letter No. 335, dated the 17th instant, as this Bank does not do foreign exchange business, I regret I am not in a position to reply to the questions sent by you.

LETTER FROM THE CHAIRMAN, EXCHANGE BANKS' ASSOCIATION, CALCUTTA, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, DATED THE 24TH SEPTEMBER 1929.

I am directed to acknowledge receipt of the advance copy of the questionnaire that will shortly be issued by the Indian Central Banking Enquiry Committee in regard to the financing of foreign trade.

2. This questionnaire, we understand, will shortly be dealt with by a special Sub-Committee, appointed by the Bengal Chamber of Commerce, on which a representative of this Association will have a seat. It does not appear to us that any separate reply to the questionnaire is called for from the exchange banks, as most of the questions are obviously addressed to the mercantile community as apart from the banks. The Exchange Banks' representative, however, on the Chamber Committee will be able to render such assistance as may be necessary in all matters relating to banking custom and procedure.

3. The further details desired of operations of exchange banks in India which have not been included in the questionnaire, are not available here. As they are of a strictly confidential nature we suggest you should ask the Director-General of Commercial Intelligence and Statistics to endeavour to procure them in consolidated form through the same channel as he obtains the figures relating to capital, reserves, deposits, and cash recorded on page 1 of the Statistical Tables relating to Banks in India published by his department

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LETTER FROM THE MANAGING DIRECTOR, THE CENTRAL BANK OF INDIA, LIMITED, BOMBAY, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, DATED THE 26TH SEPTEMBER 1929.

With reference to your No. 335 of the 17th instant and the two questions sent therewith, we have the honour to submit our views thereon hereunder.

The chief difficulties in the way of an Indian bank opening its branch in London for doing foreign exchange business are as follows :—

(1) It must have a large capital, say over Rs. 2 crores, in order to command credit in the London Discount Market as well as with exchange banks doing business in India.

(2) To open a branch in London and maintain it in style on correct lines the institution should be in a position to sacrifice Rs. 5,000 or more every month for a period of at least three years for maintenance and to meet unforeseen losses in a new line of business, which must naturally result for want of practical experience. To expect the branch to be self-supporting within three years of its existence would be, in our opinion, too optimistic a view to adopt considering the strong position of the exchange banks and the very narrow margin on which the branch must work to attract business.

(3) The branch must have a trained and reliable staff with some knowledge of international exchange.

(4) The floating resources of the bank should be wide enough to permit a big turnover.

(5) Political movements in India have a good deal to do with the banking and trading facilities which an Indian bank could expect from British and foreign banks in London and at other places.

(6) A Bank with its head office in London has better chances than one with its head office in India of securing import and export bills as well as bills for collection and, being on the spot, is more conversant with the prevalent monetary situation.

(7) An Indian bank opening its branch in London can hardly expect to receive local deposits or other business from the British public or merchants and manufacturers. Even banks like the Chartered, National and the Mercantile are not much patronised by the public in London, and they are chiefly known to business firms trading with the East.

In the past, attempts have been made to establish branches of Indian banks in London. The defunct Indian Specie Bank had a branch in London, but it was established more for its silver transactions than for regular banking business in foreign exchange.

One of the other joint stock banks under Indian management doing business in foreign exchange, though on a small scale, is the Central Bank of India, Limited. Although it has resources enough to open a branch in London, it has been developing its foreign business through Agents and has been successful in forming useful connections. In the ordinary course these might have sufficed to justify the opening of a branch in London. Due, however, to the following difficulties the growth of its foreign exchange business has been arrested, and but for its strength the Central Bank might have had to give this business up entirely ere now :—

(*a*) Constant rumours about its credit, consequent on aggressive prosecutions permissible under law, defective as it is at present ;

(*b*) Determined efforts of rivals and enemies to make capital out of such rumours ;

(*c*) Periodical runs on the bank engineered by designing individuals ;

(*d*) Tendency of British banks to lend restrictedly even against Government of India securities, due perhaps to their taking too serious a view of the differences between Government and the extreme section of political thought.

(e) British banks, unwilling as they are from a patriotic point of view to lend to Indian banks, even against gilt-edged securities, ask for higher rates of interest than those ruling in the market, and these high rates of interest would absorb the small margin of profit in such business. Besides, it would hardly pay an Indian bank to borrow monies in India and employ them on the London Discount Market.

(f) Foreign Banks, being not conversant with the real political situation in India, are inclined to exercise undue caution, and will only pass their business in bills for collection on to banks having head offices in London rather than to joint stock banks established in India.

(g) The attitude of some of the exchange banks in India to suspend facilities in forward transactions in exchange at the spread of any rumour regarding this Bank.

Some of the above difficulties, as will be realised, are by nature such that they cannot be removed by Government interference or legislation. They could only be solved by mutual trust and goodwill. But, besides the above difficulties, exchange banks in India—British and Foreign—have been so well-established and so amply provided with funds through their Indian branches and the London Discount Market at relatively cheap rates that it would be extremely difficult for an institution outside their circle to compete with any measure of success, at least for a time after the starting of the exchange business. Government, however, could encourage approved Indian banks to establish branches in London by giving them a part of their exchange business and by rendering it possible for such Indian banks to borrow from the surplus funds at the disposal of the Secretary of State for India, at the same rate at which his deposits are made with the Big Five and other British banks.

Letter from the Manager, The Bank of India, Limited, Bombay, to the Secretary, Indian Central Banking Enquiry Committee, No. 54828, dated the 30th September 1929.

With reference to your letter of the 17th instant, and in answer to the two questions (1) difficulties experienced by Indian banks *re.* foreign exchange business, (2) what may be done to start foreign exchange business by Indian banks, I beg to state that as I am not concerned with foreign exchange business, I am not really competent to answer the questions.

Foreign exchange banking is, in my opinion, a special subject necessitating connection, association and residence in the countries concerned, *e.g.*, the National City Bank of New York is peculiarly competent to deal with foreign exchange transactions between America—India and London, the Yokohama Specie Bank, Limited, is concerned with Japan—India and London, the Hongkong Bank, Limited, is concerned with China—India and London, the Eastern Bank, Limited, is concerned with Mesopotamia—India and London. The Netherlands Trading Society is concerned with Holland, Belgium, Germany—India and London. The Chartered Bank of India, Australia and China is concerned with the Straits Settlements—India and London. The National Bank of India, Limited, is concerned with India—Aden, East Africa and London.

It appears to me almost impossible for a purely Indian bank to compete with foreign exchange business in so many different countries.

The suggestion that all banks carrying on business in India be required to employ a percentage of Indian covenanted assistants may be considered as useful for the training of Indians in foreign exchange.

I consider that Indian or local banking can absorb all available talent at present.

I would emphasise that this letter represents my personal views only.

LETTER FROM THE GENERAL MANAGER, BENARES BANK, LIMITED, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, NO. G.-757, DATED THE 31ST OCTOBER 1929.

In continuation of our No. 532 of the 20th ultimo, we have to state in answer to the two questions which accompanied your favour of the 17th ultimo that it does not seem to us to be possible for Indian banks to secure any decent share in the foreign exchange business as long as the export and import trades are in the hands of European houses. As credits for financing the major portion of these trades are created in foreign countries, foreign banks must continue to monopolise this business.

The delay in sending this reply is much regretted.

LETTER FROM THE MANAGER, THE BANK OF MYSORE, LIMITED, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, NO. P. C.-359, DATED BANGALORE, THE 12TH NOVEMBER 1929.

I am in receipt of your letter No. 600 of the 8th instant enclosing a duplicate copy of your letter No. 335 of the 17th September 1929. As we do not deal in foreign exchange, I regret we are not in a position to answer your questions.

Most of the exports of agricultural produce from this State are in the hands of firms like Ralli Brothers, Dreyfus and Company, Volkarts, etc. As regards (1) *Coffee*, this is sold at the Coast; there are no direct exports from the State.

(2) *Mineral Ores.*—Credits are opened with the exchange banks by the buyers in America and England.

Personally I should say that the great obstacle in the way of Indian banks undertaking foreign exchange business is the lack of men with foreign exchange experience: this, however, could be overcome in time. There is no reason to suppose that if Indian banks opened branches abroad they would not obtain a share of foreign exchange business. It is merely a question of expense, provided as stated above there were trained men capable of dealing with the business.

Letter from the Secretary, Burma Indian Chamber of Commerce, to the Secretary, Indian Central Banking Enquiry Committee, No. G. L.-105/29-30, dated the 2nd December 1929.

Subject.—*Banking Enquiry.*

With reference to your letter No. 316, dated the 10th September 1929, addressed to the Federation of Indian Chambers of Commerce, Calcutta, enclosing a copy of a letter issued to the Chairman of the Exchange Banks' Association, Calcutta, on the above subject, I am directed to forward herewith the replies of my Committee to the questionnaire of the Indian Central Banking Enquiry Committee in regard to the financing of foreign trade.

I am further directed to enclose herewith a note on the "Estimate of Finance for Foreign Trade of India" prepared by one of the members of my Committee in reply to your letter to the Chairman of the Exchange Banks' Association and to say that my Committee are in general agreement with the views expressed therein. I am to add that this note appeared in the "Indian Finance" in its last two issues of the month of October 1929.

Replies of the Committee of the Burma Indian Chamber of Commerce to the questionnaire of the Indian Central Banking Enquiry Committee regarding Financing of Foreign Trade.

Question 1.—Would you state, with reference to any trade that you have had an opportunity to observe, the credit facilities which are required and to what extent banks supplying those facilities fulfil the present requirements ?

In your opinion, is there any class of merchants who are unable to secure all the assistance they need either in India or in foreign countries, and if so, could you give any reasons for this state of affairs.

What remedies do you suggest ?

Answer.—It would be difficult to state the exact or even an approximate extent of the credit facilities required in respect of foreign trade as it depends on the general state of the foreign trade, season, and the conditions of the money market in general.

The Chamber is of opinion that the banks supplying those facilities, *i.e.*, the exchange banks, while giving all possible facilities to European parties, do not extend the same facilities to Indian parties under identical circumstances. This is largely due to want of contact between European bank managers and Indian merchants. There is general apathy on the part of the European managed Banks towards the Indian clientele. Thus considerations of nationality influence the policy of the exchange banks to a large extent which appears to the Chamber to be undesirable.

The second part of the question has been partly answered above. It is no doubt true that a class of merchants do not secure all the assistance they need because their credit does not come upto the standard required by the banks. While this is so in some cases, the causes mentioned in answer to the first part are largely responsible.

The Chamber suggests the establishment of a large Indian exchange bank, Indian in outlook and policy, in which Government, Indian banks and public should be interested, as the remedy to improve the present state of affairs.

Question 2.—What are the credit instruments in use with regard to foreign trade ?

In what conditions is credit available against these documents and in what conditions is clean credit available ? What are the rates charged by the banks ?

Are there any seasonal fluctuations in these rates ?

What are the facilities existing at present in the export trade for discounting export bills ?

Are there any restrictions that you have to complain of ?

Have you any remarks to make with regard to the exchange rates which are charged for the conversion of rupee into sterling or other foreign currencies, and *vice versa* or for the remittance of funds to and fro ?

Answer.—The most important credit instruments in use in foreign trade are letters of credit and bills. The conditions under which credit would be available against these documents and under which clean credit would be available would depend upon the circumstances in each particular case.

There are seasonal fluctuations in rates of interest.

The facilities at present available for discounting export bills are freely available to European banks but the same facilities would not be available to Indian banks for reasons stated in answer to question 1. Also the exchange banks are able to get adequate re-discounting facilities in the London market and thus supplement their resources, which would not be available to the Indian banks, even if they opened branches. The Tata Industrial Bank could not get any facilities from the Bank of England.

The only remark the Chamber desires to offer with regard to the exchange rates is that more favourable rates are obtained by European parties than the Indian parties.

Question 3.—Have you any suggestions to make with regard to—

(*i*) (*a*) the establishment of bonded warehouses,

(*b*) the present practice of port trust warehousing,

(*c*) the practice by banks of releasing goods on trust receipts, or

(*d*) any other methods in vogue for the convenience and facility of merchants engaged in the import trade ?

(*ii*) Do the interests of the traders and the public suffer in any way through any defects in the present organisation, and have you any suggestions for its improvement ?

Answer.—(*i*) (*a*) The Chamber suggests the establishment of licensed warehouses in different localities.

(*b*) *Nil.*

(*c*) The Banks should be more liberal in releasing goods on trust receipts.

(*d*) There should be a general broadening in the outlook of banks.

(*ii*) The Chamber suggests that Indian exchange banks with working arrangements with Indian joint-stock bank should be started.

Note on the Estimate of Finance for Foreign Trade of India.

Before one begins to discuss this subject it is advisable to determine what it exactly means and if there are any qualifications which must govern the estimate. For example, there are three obvious factors which must increase or decrease the total amount of money required to accommodate the import and export business of India with the outside world, *viz.*, (*i*) the volume of business, (*ii*) the level of prices and (*iii*) the velocity of business. The first two are easily understandable. The last one refers to the flow of business, both inwards and outwards; the rate of this speed or flow and the periods of increase or decrease in the normal rate of flow. If (*i*) and (*ii*) are constant for any two years, the limits within which the amount of finance will fall, in any particular year, will depend upon (*iii*). And the amount of finance throughout any particular period can only be uniform if all the three factors remain unchanged; otherwise, there will be variations from the mean or average figure. Sometimes more money will be required, sometimes less, the extent of variation depending upon the incidence of each of these items. From practical point of view such an estimate is never constant. There may be fluctuation due to price changes, or seasonal variation in the volume and speed of business or due to supply and demand.

The above three limitations, which are merely referred to by the way, to illustrate the difficulty in arriving at an absolute and unchangeable figure, however, do not completely define the subject. The points at which "Foreign Finance" begins and ceases to operate have a very important bearing on the question. The distance between these two points determines the duration of finance. Should the subject cover the period of time intervening between the export of goods in one country to the import of goods in another country or should it extend from the day on which export bills are received to the day on which they are due for payment by the importer. The difference between the above two periods will depend upon the usance of bills, assuming that the goods and the relative bills take same time in transit. Further in some countries, as in India, there is a practice on the part of the banks to advance, in certain cases, depending upon the credit position of the shippers, on the expectation of receiving export bills, as soon as the relative exchange contracts are entered into. Should this kind of credit be included under the scope of this subject? Also when import bills are due for payment, the bills may not be retired by the drawees, or they may require accommodation from their bankers on the security of the relative goods and with such advances retire the bills. Should such advances be included?

Finally, the agency which provides accommodation has a bearing on the subject. The exporter or importer may finance the transaction himself, or the accommodation may be provided by some third party including banks. In the last case, the provider of accommodation may hold on to the bills until maturity or may sell them to the market or bigger banks.

We have surveyed the limitations which must qualify any answer to this question. What particular factors should be taken into account in determining the answer to this question will depend upon the object of enquiry.

The Exchange Sub-Committee of the Central Banking Inquiry Committee is reported to have issued a letter to the Chairman of the Exchange Banks working in India enquiring from him the amount of finance necessary for the foreign trade of India. Presumably, the object of this communication is to ascertain the amount of money which the Exchange Banks have to provide for the external trade of India. The preliminary remarks which have been made

above will show how totally different answers can be given according to the different views taken of the scope of the question. And it would be far better if the question is stated in more precise terms, embodying all the qualifications which should govern the answer.

Bearing in mind the object of the Exchange Sub-Committee of the Central Banking Inquiry Committee, we now proceed to discuss the qualifications under which the estimate should be prepared and thereafter arrive at some idea of the estimate itself.

Value of External Trade.

The Government blue books give the following import and export figures of India during the last three years. The year covers 12 months from 1st April to 31st March in each year :

Year.	*Imports.* Rs. (Crores.)	*Exports.* Rs. (Crores.)
1926-27	231	309
1927-28	250	329
1928-29	253	338
Average for 3 years . .	245	322

The monthly average on the basis of the last three years' average comes to Rs. 20·5 crores imports and Rs. 26·8 crores exports.

By looking to the monthly figures of imports it will be seen that they are not uniform throughout the year. The figures during June to August are about 2 crores below the average and the figures during November, January, March and April are above the average by the same figure. In the case of exports, figures for January to March are above the average by about 3 crores. July to August are dull months for exports and figures for these months are below the average by 2 to 3 crores.

The figures given above do not include imports and exports on Government account or relating to bullion business. They, however, include imports direct by State Railways working under the company management, which are not paid for in the ordinary way. The monthly average of such imports on the basis of the figures for the last three years comes to about Rs. 17 lacs. The average value of annual bullion imports during the last three years is Rs. 3,510 lacs and the monthly figure comes to approximately Rs. 3 crores.

In preparing the estimates we shall assume the imports and exports to be uniform. We shall further indicate the periods of maximum and minimum pressure and the extent of such pressure.

Duration of Finance.

The preliminary finance of the nature of advances to shippers to enable them to buy produce and/or in anticipation of exchange contracts, really comes under the category of finance for internal trade. It is only when the goods are ready for export that the foreign finance should come into operation.

The advances to shippers to facilitate their purchases with a view to get their bill business does not fall in the domain of "Foreign Finance". Similarly subsequent or supplementary finance to the importing houses when they want credit after the import bills have matured, should be classed as credit for internal trade.

In the case of exports from India, the "Foreign Finance" should be considered to come into operation as soon as the goods are definitely marked for export and sold abroad. Some interval must elapse before such goods are actually shipped. It may happen that the goods are in the interior and have to be railed to the port town for shipment; or it may be that the goods are already at the port but there is delay in getting freight. Such period of transit from the railhead to the ship or of delay is generally not much but at times amounts to three weeks. The average, however, would not be more than a fortnight. It may be argued that exporting houses buy and store goods with the object to export at some future date, either to meet the forward contracts already entered into or when prices are favourable and as such, accommodation for such period of storage should be covered by the class of finance under consideration. Actual purchases by obtaining deliveries are however rarely made to meet future contracts for exports. Such forward contracts are generally arranged on the basis of forward purchases, which do not require deliveries at the time of contract and the consequent storage and finance. But even if goods are actually and definitely stored to meet future exports, the relative credit should be classed as finance for the internal trade.

The period of transit between India and Europe is about 3 weeks. In the case of Java, Straits, Iraq and such other nearer foreign ports, the interval may be less. On the other hand the time of transit to West Indies may be much longer than 3 weeks. The average period may, however, be safely assumed to be three weeks.

The total interval between the moment goods are earmarked for export and the moment when they reach the foreign country thus comes to five weeks or say 1¼ months.

The exports from India are generally in the nature of sales to the importers in the foreign countries. It is only commodities like wool, hides and skins and tea that they are not sold but sent to be auctioned after arrival. The value of goods in the latter case cannot be determined until the auction. This difference has led to two methods of financing these two classes of exports. In the case of goods which are in the nature of sale, bills are drawn by the seller upon the purchaser. The usance of such bills varies according to practice and arrangement but the average would work out to be not more than 3 months. In the other case where goods are auctioned at destination, the bills known as D. P. (Documents deliverable on Payment) are drawn and are paid after the auction. From the nature of transaction exact value of such goods is not known and the amount of relative bills is based on the probable amount which the goods would fetch at the auction, keeping some margin on the market value in India at the time of export. Such bills are paid off as soon as the auction is over and the time between the arrival and the auction would on an average be not more than one month. Tea auctions are held every week. Hides and skins are auctioned every fortnight. In the case of wool the interval between two auctions is longer but the average as referred to above is not more than a month.

It may be incidentally remarked that letters of credits are generally arranged by the purchasers of commodities in favour of exporting sellers, which facilitates credit to the exporters as well as brings into existence paper which has

good names to guarantee their payment on due dates. Often these bills are accepted for payment by first class banks of the importing countries. This practice facilitates rediscount of such bills in the foreign market, should the banks negotiating them in India want to do so, on their arrival at destination. Whether the negotiating banks would rediscount them or not will depend upon their cash position, the condition of the money market, the rates of interest in India and abroad, etc.

As a general rule the Indian Branches of the Exchange Banks invariably rediscount such bills with their foreign offices and it is left to the discretion of such foreign offices whether the bills should be rediscounted in the market or not. As we are, however, trying to ascertain the extent of finance irrespective of rates of interest, and as adequate facilities for rediscounting export bills are available in the London Market, we may conclude that the money provided by the Exchange Bank in financing export bills could be got back within a period of about 1¼ months.

It is true that export bills to Java, Straits, Iraq and some other foreign countries are not rediscounted. But the volume of such exports is not large. Moreover, the usance of such bills is generally one month. Some allowance for this will be made when determining the estimate.

In the case of export D. P. Bills we have estimated that a month should elapse before the goods are auctioned; and as the bills are retired from the realization at such auctions, it follows that the amount invested by the Exchange Banks in this class of business takes a month longer to be free, than in the case of other class of exports.

Coming now to the question of finance for the import bills, it commences from the moment they are handed by the foreign exporter to the agent or the branch of the Exchange Bank. Such Bills are drawn for varying usance—some are payable at sight, some after two months, three months and in rare cases six months after sight. The average usance is 3 months. But a considerable portion of such bills are drawn what are known as D. P. and the drawees of bills, in order to save storage and other charges, retire bills before maturity. The experience of the writer and which is confirmed by others is that it will be a reasonable assumption to say that on an average all import bills are retired on an average two months after their arrival in India. To arrive at the total duration of finance for the import bills we have to add period of transit from the exporting country to India, which to keep a safe margin, may be taken as one month.

In the case of Bullion Imports the duration of finance coincides with the period of transit. The transit time between London and Bombay or South Africa and Madras is three weeks. It is very rarely that we get silver or gold from America, in which case shipments take longer time. We can therefore safely fix the duration of Bullion Finance at three weeks.

The above remarks lead to the following conclusions as regards the duration of finance :—

Exports.—(*i*) Where export bills are possible, the duration will be generally one and a quarter months. But if the export bills are not rediscounted the duration will be 4¼ months.

(*ii*) In the case of these exports which are sent out to be auctioned, the period of finance will be 2¼ months.

Imports.—The average duration of finance for imports is 3 months with the exception of Bullion Finance which lasts for only three weeks.

All the imports and exports are not financed by the Exchange Banks. A portion of bills are received for what is known as collection. It should, however, be not concluded from this that they are necessarily financed by the exporters in the foreign countries. It may be, and which is very often the case, that such exporters hand them over to their own bankers who finance them themselves and merely utilize the agency of Exchange Bank for their realization. The Indian Exchange Banks thus do not finance such business. They merely forward moneys in respect thereof after the bills are paid by the drawees. On a conservative estimate at least 30% of imports and 10% of exports go unfinanced by the Indian Exchange Banks.

We now proceed to arrive at the estimate of finance provided by the Exchange Banks for the foreign trade of India.

Imports.	Rs. (Lacs).
Monthly average	2,050
Less value of imports imported by State, but Company managed Railways	17
	2,033
Less 30%	610
	1,423

Multiplying the above figure by 3, the duration of finance, we get the amount of finance required to carry over for three months.

Finance for merchandise imports = Rs. 4,269 lacs (1) In the case of bullion the duration of finance being only ¾ of a month, the necessary amount of credit comes to Rs. 225 lacs.

Finance for Bullion imports = Rs. 225 lacs (2) Adding (1) and (2) we get Rs. 4,499 lacs or say Rs. 45 crores.

Finance for Imports = Rs. 45 crores (3) And if we wish to make a further allowance for any possible error we may increase this estimate by a few crores and put at :

Finance for imports = Rs. 50 crores............(A) Normally estimate (A) should not be increased.

Exports.—The average value of monthly exports is Rs. 26·8 crores, out of which Rs. 3·5 crores account for the value of average monthly exports of wool, Tea and Hides and Skins, on the basis of last three years' figures.

The latter class of goods require 2¼ months to carry them and the rest valuing Rs. 2,330 lacs require 1¼ months.

The extent of finance therefore is :

	Rs. lacs.
2,330 × 5/4	2,910
350 = 9/4	790
	3,700
Less 10%	370
	3,330

Finance for exports = Rs. 33·3 crores (4).

If we consider that the export bills are not rediscounted but held over till maturity on the basis of average usance of 3 months we shall have to multiply 9/10ths of 2,330 by 4½ instead of 1¼, in the above calculations and we get Rs. 96·21 crores. This result, however, does not represent the actual conditions and as such should be left out of any reasonable consideration.

If, however, it is considered necessary to make a further allowance of safety on (4), we may add a crore or so and put down.

Finance for Exports = Rs. 35 crores (B).

Finance for Foreign Trade.

To get at this figure we have to add (A) and (B) and we get

Total finance = Rs. 85 crores . . . . . (C).

If the figure (3) and (4) are added we get a lower estimate, namely, Rs. 78 crores, or roughly Rs. 80 crores, but which is probably truer.

Total finance = Rs. 80 crores . . . . . (D).

Now all this finance is not provided by the Indian Branches of the Exchange Banks. Foreign offices of these Banks must and do provide their contribution. Assuming that the share of each Agency, Indian and Foreign is equal, the amount of money which the banks working in India have to provide comes to :

Estimate I = Rs. 42½ crores . . . . . (E)

or Estimate II = Rs. 40 crores . . . . . (F).

according as we take (C) or (D) into consideration.

We shall now proceed to subject the result (E) and (F) to an independent test. The deposits of the Exchange Banks approximate to Rs. 72 crores. They maintain about Rs. 10 crores of cash balance and as a rough guess we may hazard that their holdings in Government Paper amount to about Rs. 15 crores. They also finance internal trade of India, at least of the nature of preliminary and supplementary finance referred to above, though they have been taking increasing interest in the discounting of India bills, particularly in the port towns and are said to be lending for purposes unconnected with foreign business. In the busy months their portfolio of Inland Bills becomes scanty and they even take loans from the Imperial Bank on the security of Government Paper. The estimate of amount normally invested in such lendings would average out to be another 10 crores. If we set off this 35 crores from their deposits there would be left about Rs. 37 crores which comes very near to the estimate given at (F).

The above test is of course not very rigid. The writer is only depending upon scanty economic data and the investigation can naturally be not precise nor what could be got by analysing the statements and figures appearing in the books of the Exchange Banks.

It may be argued that we have omitted to take into account the capital borrowed by the Indian branches from their branches outside India or their loans to such outside offices, and both these heads may contain appreciable sums in the Statement of their affairs. From the fact that the Chairman of a leading British Bank having large connections with India mentioned at one

of the Bank's annual meetings that a portion of the Indian deposits was invested in London, we are led to conclude that on the whole, taking the figures of the Indian Branches of the foreign banks into consideration, it would appear that even if they have not lent anything to their foreign offices, they are at least independent of any outside borrowing. In busy season they may borrow from outside and in slack season they may lend to their non-Indian branches but on an average such Inter-Branch borrowings would not be in favour of Indian offices. And if it happens that the Indian Branches are creditors of their foreign branches, the estimates given at (E) and (F) would probably be further reduced.

It now remains to take into account the seasonal increase in the amount of finance due to the increased speed of business. The months January to March are more active both as regards Imports and Exports. Somewhere in the month of March we shall come across the peak point of the "foreign finance". Taking into account what has been said under the head of "Value of External Trade," the maximum value of the estimate (E) comes to about 46 crores and of (F) to 44 crores—half of 8 crores being added. And we think we shall be absolutely safe if we fix the maximum limit of the estimate at Rs. 50 crores. The minimum limit will be in the neighbourhood of Rs. 35 crores.

The problem is capable of being looked at from another point. We may restrict the application of finance for foreign trade to the period of transit from foreign countries to India or from Inida to foreign countries. Credit facilities for goods or bills after their arrival at destination will under that case be classed as finance for internal trade. Further we may assume that the foreign countries have to provide funds to finance their exports and India has to accommodate all the trade that goes of it. On the basis that it takes one month in transit in the case of merchandise, three weeks in the case of Bullion and that all the imports and exports are financed by banks, we shall get the following figures :

Indian Funds invested in Foreign Finance Rs. 26·8 crores.

Funds invested by Foreign Branches Rs. 22·5 crores.

The combined contribution of both Indian and foreign branches of banks participating in the finance of foreign trade would, in such a case, be about Rs. 50 crores.

There is a tendency in some quarters to emphasise that Indian funds invested in this class of business are represented by the excess of exports over imports. This conclusion is not confirmed by the actual state or logic of facts. Such a result would only be correct under the following cases :

(*i*) The imports in India are financed with foreign funds.

(*ii*) The realizations of such imports although available to the foreign bankers at the moment of arrival are not withdrawn by them immediately but left with the Indian branches to finance exports and from the sale proceeds of such exports to pay for the imports.

(*iii*) The surplus value of exports over imports is immediately drawn back by the Indian branches.

One-sided arrangement of the above nature does not conform to the present practical conditions.

In conclusion, it remains to be pointed out that the writer offers this estimate only as a rough approximation. Its purport is only indicative. More precise figure is possible and it is hoped, would be forthcoming, from persons in close touch with the actual figures. But it may be fairly claimed that such a figure would fall within the limits indicated here and can be provisionally taken advantage of by any one who may be interested in a result of this kind.

LETTER FROM THE SECRETARY, ASSOCIATED CHAMBERS OF COMMERCE OF INDIA AND CEYLON, NO. 170-AC., DATED THE 7TH APRIL 1930.

I am directed by the President to refer to the correspondence resting with Mr. Sulivan's letter No. 370-33-A. C., dated 12th September 1929, on the subject of the Banking Enquiry and to forward, for the information of the Enquiry Committee, the accompanying copies of the undernoted replies which have been received, so far, from the Chambers in the membership of this Association. The Bombay Chamber's reply dated the 27th January 1930 was sent to you direct.

(1) Dated 19th October 1929, from the Madras Chamber.

(2) Dated 26th October 1929, from the Karachi Chamber.

(3) Dated 14th December 1929, from the Bengal Chamber.

2. The President desires me to add that it is possible that additional replies from the Upper India Chamber of Commerce, Cawnpore, and others may be forthcoming, and copies of these will be sent to you as soon as they arrive.

LETTER FROM THE MADRAS CHAMBER OF COMMERCE, TO THE ASSOCIATED CHAMBERS OF COMMERCE OF INDIA AND CEYLON, DATED THE 19TH OCTOBER 1929.

In reply to your letter of the 12th September 1929 forwarding copies of a letter received from the Secretary, Indian Central Banking Enquiry Committee, I am to advise you,—

Re : Financing Foreign Trade.—(1) The credit facilities which would appear to be required for financing foreign trade would be an adequate number of Exchange Banks, prepared to give the necessary financial assistance to merchants. It would appear that the present requirements of the trade of Madras are adequately met by the Banks now operating.

Respectable and responsible merchants in India are in no way different from merchants elsewhere and should be able to secure all the finance they require provided it is on sound lines, and it would appear that if there is any class of merchants unable to secure the financial assistance they need, it is because their standing is not of a sufficiently high standard to satisfy the requirements of bankers.

(2) The instruments used with regard to foreign trade are principally Bills accompanied by shipping documents. Such Bills are freely negotiated by banks to responsible parties. Clean bills are negotiated where the makers are considered to be good for their engagements and such bills are negotiated at the current rate of exchange or at the rates fixed forward, which must naturally fluctuate according to the seasonal volume of trade.

The Chamber has not noticed any restrictions that appear to it to call for complaint and the rates charged by banks would appear to be reasonable. Good business is eagerly sought for and the competition for this automatically provides cut rates.

(3) (1) (*a*) and (*b*). The Chamber has no suggestions to make in this connection.

(*c*) Banks release goods on Trust Receipts to responsible parties.

(*d*) Banks freely advance against imported goods during the process of marketing.

(2) The Chamber has not noticed any defects in the present organisation which causes general suffering to the public or traders.

LETTER FROM THE KARACHI CHAMBER OF COMMERCE, TO THE ASSOCIATED CHAMBERS OF COMMERCE OF INDIA AND CEYLON, BOMBAY, NO. 29-C. F.-4, DATED 26TH OCTOBER 1929.

I am directed to acknowledge receipt of your circular letter No. 58/33, dated 12th September 1929, and enclosures, which have received my Committee's consideration.

In my Committee's opinion it seems rather a curious procedure to submit supplementary questions before the main questionnaire is submitted, but as far as the extract from the draft questionnaire and the "Financing of foreign trade" is concerned, my Committee feels that it cannot be too plainly shown *at once* that for reputable merchants, Indian or European, trading within the limits of what is reasonable on their standing there are banking, credit and every other trade facilities available in abundance and to spare at all the ports and large centres.

Any suggestion to the contrary can only come from firms either lacking in repute or notoriously overtrading. In these hard times all banks are looking for business, and the Banking Enquiry Committee may be sure no reasonable proposition from a reputable firm is ever turned down. Rather the tendency is for Banks, if anything, to be overgenerous.

2. The finance required for the total import and export trade of India is obviously the total of such trades. If certain big firms, Indian and European, as is suggested, to a certain extent put their own imports against their exports, that may detract from the total business offering to Exchange Banks, but it does not affect the total finance involved. The question as to the total finance required to do a turn-over of £10,000 goods is impossible to answer even approximately without consideration of the *time factor*. A merchant with Rs. 15,000 liquid capital who turned over Rs. 13,500 per mensem would find his capital ample to turn over £10,000 goods in a year without recourse to any outside financial assistance.

But if the same man changed his methods and engaged to buy £10,000 goods for a single delivery he would at once be forced to look for accommodation to a Bank or Finance House, and with a margin of little more than 10 per cent. he could not expect accommodation on the best terms. His need of finance would continue till he had reduced his stocks to what he could carry with his own capital, and the "time" would depend on the trend of the market and the possibilities of early realisation.

3. The credit given by the Imperial Bank of India is to a certain extent on commercial two-name-paper, but to a much larger extent on *stocks* less a margin of 30 per cent. The financial facilities thus afforded cover a wide field, directly assisting Traders at the large centres and consequently, in the case of exports, indirectly assisting the prime-producer by broadening his potential market.

"Dealers" buy and sell in the same market, while "Merchants" properly speaking buy in the countries of production to sell in the countries of consumption. The finance of "dealers" therefore is conducted in Indian currency, and this is mainly left to the Imperial and other non-Exchange Banks. The financing of merchants, however, usually involves working in two currencies, the currency of the country of origin of the goods as against the currency of the country of consumption, though *London* may take the place of either as far as the merchant in India is concerned.

The Exchange Banks, specialising in this highly complicated finance of trade which involves transporting goods from the *locus* of origin to the *locus* of consumption, are naturally inclined to leave other forms of finance alone, except in so far as they may be ancillary to their main business.

The finance of local industries and of agriculture is therefore mainly the business of the Imperial Bank, the Joint Stock and Co-operative Banks and the Indigenous Bankers.

LETTER FROM THE SECRETARY, BENGAL CHAMBER OF COMMERCE, TO THE SECRETARY, THE ASSOCIATED CHAMBERS OF COMMERCE OF INDIA AND CEYLON, NO. 4233-1929, DATED CALCUTTA, THE 14TH DECEMBER 1929.

I am directed to refer to your circular No. 58-33-A. C., dated 12th September, forwarding, for an expression of opinion, certain papers received from the Central Banking Enquiry Committee.

2. With their letter to you of 10th September the Central Banking Enquiry Committee forward a copy of a letter issued to the Exchange Banks Association, Calcutta, with an advance copy of the portion of the Central Committee's questionnaire dealing with the financing of foreign trade, and mention certain additional points in connection with the operations of the Exchange Banks upon which information is desired by the Sub-Committee of the Central Committee appointed to deal with this question.

3. The Sub-Committee ask for information in regard to the finance required for the import and export trade of India, meaning by this trade the trade to and from the ports of India. If imports could be set off against exports, the finance required for this purpose would, it is stated, be the difference between the value of the imports and the value of the exports. The Sub-Committee understand that in the case of a few firms their import and export obligations are thus set off, and that in most other cases the finance required for the import trade has to be treated separately from the finance required for the export trade; they ask for information regarding this matter and in particular for information as to the finance required on the average for, say, £10,000 worth of goods "and for what duration of time". The Sub-Committee add that the Central Committee are dealing with the credit facilities given by Banks of various classes—the Imperial Bank, the Exchange Banks, the Co-operative Banks and the indigenous and joint stock Banks—to local industries, internal trade and agriculture: and they desire accurate information as to the extent to which the Exchange Banks take part in this financing. If the Exchange Banks are also affording any assistance to any other class of Banks in the country, information regarding such assistance is requested.

4. I am directed to say that the Chamber has considered this general reference. The Chamber understands that the Exchange Banks are dealing with it, in reply to the Central Enquiry Committee, by explaining that much of the information relating to their part in the finance of the trade of India can be obtained only from the head offices, as no single Bank has complete information as to the detailed figures, and as in every case the individual Bank has dealings not only with India, but also with other countries. The information would have to be compiled in the India Office from the details furnished by the head offices of the Banks, which could not be expected to give each other the statistics required. In fact, the head offices already supply certain particulars for the purpose of the compilation of the banking statistics issued by the India Office.

5. With particular reference to the request for information regarding the finance required for the trade to and from the ports of India, the feeling of the Chamber is that this is a matter in regard to which they cannot give much assistance, as it is for the Exchange Banks to work out the figures, although it is anticipated that considerable difficulty will be experienced in arriving at more than a very rough approximation. In working out an estimate, it will presumably be necessary to take the separate commodities and the varying credits required by these from the time of first purchase to the time of ultimate sale. Speaking generally, it may be said that the import trade is financed principally by the Exchange Banks. On the other hand, the export trade is to a great extent financed by the London money market, although the Exchange Banks provide the cash until the bills are received in London and discounted there: the liability of the Banks continues throughout the transaction, but after that point the funds are furnished by the London market. It will not suffice to balance the figure of imports against that of exports, because the time element must be taken into account—the period of some three to four months for which, in the case of certain imports, for example, finance must ordinarily be provided. Supposing, for instance, that the exports totalled £1,000,000 in value and the imports £900,000. The finance to be provided by the Exchange Banks might, if all the goods were in transit simultaneously, amount to the full aggregate, namely, £1,900,000, but in other circumstances might be far short of this.

The problem is complicated by the extreme difficulty of calculating how the invisible balance of trade is financed, and a further point which must be borne in mind is the fact that the negotiability of Indian export bills depends to a large extent on the acceptances of the Exchange Banks in London. The value of these documents is obviously enhanced by acceptance, and the amount of finance involved in acceptance cannot easily be estimated. The feeling of the Chamber is that, while as indicated above the matter is primarily one for the Exchange Banks, any effort to arrive at a figure which will give the Central Enquiry Committee the information they desire will be tantamount to guess work, and will produce a figure which will probably be of little practical value.

6. The Chamber will now proceed to examine the extracts from the Central Enquiry Committee's questionnaire which are attached to the letter to the Exchange Banks Association. The questions, and the Chamber's conclusions with regard to them, are given below :—

Question :—Would you state, with reference to any trade that you have had an opportunity to observe, the credit facilities which are required and to what extent banks supplying these facilities fulfil the present requirements ?

In your opinion, is there any class of merchants who are unable to secure all the assistance they need either in India or in foreign countries, and if so could you give any reasons for this state of affairs ? What remedies do you suggest ?

Answer :—In the opinion of the Chamber, every class of merchants in India can receive sufficient banking facilities relative to the merchant's position and reputation, and provided he is possessed of means proportionate to the business he undertakes : the amount of credit afforded to the merchant being, in other words, governed by his means and standing.

Question :—What are the credit instruments in use with regard to foreign trade ?

Answer :—On the assumption that the trade changes from internal trade to foreign trade when the shipping documents are obtained and the bill of exchange is drawn, the credit instruments are the ocean shipping documents.

Question :—In what conditions is credit available against these documents and in what conditions is clean credit available ?

Answer :—The usual procedure to obtain credit is for the seller to draw a bill of exchange on either the buyer or his agent or nominee in London or elsewhere, these bills being readily negotiated by the Exchange Banks.

Clean credit is available when the drawer of the draft is financially substantial enough to warrant the Bank's accepting the drafts with recourse on him only.

Question :—What are the rates charged by the Banks ?

Answer :—In the case of the export trade, the rates of exchange are based on the value of money in India and the discount rate at home. In the case of the import trade, the rate for bills drawn in London is normally 6 per cent. per annum, but when the Bank of England rate goes higher than 5 per cent. this rate is raised appropriately.

Question :—Are there any seasonal fluctuations in these rates ?

Answer :—There are no seasonal fluctuations. The fluctuations are caused by the movements in the Bank rate as stated in reply to the preceding question.

Question :—What are the facilities existing at present in the export trade for discounting export bills ?

Answer.—There is no discount market in India. Although the procedure explained above in connection with bills of exchange is in a way tantamount to the discounting of an export bill, there is no system whereby a merchant can hold his bills until he requires the money and then discount them in this market.

Question :—Are there any restrictions that you have to complain of ?

Answer :—The only restriction is in reference to the absence of the system which would, in the opinion of the Chamber, be advantageous if it were introduced in India, that is to say, the discount system. The restriction is, however, not felt to such an extent that there is any need to complain of it.

Question :—Have you any remarks to make with regard to the exchange rates which are charged for the conversion of rupee into sterling or other foreign currencies, and vice versa, *or for the remittance of funds to and fro ?*

Answer :—So far as the rupee/sterling exchange is concerned, the Chamber has no particular remarks to make. In consequence of the number of Banks operating, and the competition in the provision of banking facilities that is thus available, the rates are competitive, and there is nothing in the nature of a monopoly. The position is exactly the same in regard to the rate of exchange for other foreign currencies both to and from India.

Question :—Have you any suggestions to make with regard to—

(*a*) *the establishment of bonded ware-houses,*

(*b*) *the present practice of port trust ware-housing,*

(*c*) *the practice by banks of releasing goods on trust receipts, or*

(*d*) *any other methods in vogue for the convenience and facility of merchants engaged in the import trade ?*

Answer (*a*) and (*b*) :—The Chamber has no suggestions to make with regard to the establishment of bonded ware-houses. Congestion sometimes takes place in the Port Trust ware-houses, but this is inevitable : Port Trusts cannot avoid irregular trade movements. Speaking generally, the existing facilities for ware-housing are satisfactory, and fully meet the normal requirements of trade.

(*c*) The Banks release goods on trust receipt when in their opinion the standing of the party concerned warrants their doing so. The Chamber considers the practice to be satisfactory, and they have no suggestions to make with regard to it.

(*d*) As has been stated in reply to the first question above, the Chamber thinks that adequate finance and facilities are already provided to merchants of standing engaged in the import trade.

Question :—Do the interests of the traders and the public suffer in any way through any defects in the present organisation and have you any suggestions for its improvement ?

Answer :—No.

DEMI-OFFICIAL FROM G. H. BAXTER, ESQ., INDIA OFFICE, TO V. K. A. AYANGAR, ESQ., C.I.E., SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, NO. F.-7382-29, DATED THE 4TH DECEMBER 1929.

Treatment of Non-National Banks in certain foreign countries.

With reference to your letter of the 17th September, I forward, for information, copies of the papers noted below, on the above subject. Any further information received from the Treasury or Foreign Office will be forwarded to you in due course.

To Treasury, dated the 9th October 1929.

To Foreign Office, dated the 9th October 1929.

From Foreign Office, dated the 30th November 1929 (with enclosure as specified).

FROM G. H. BAXTER, ESQ., INDIA OFFICE, LONDON, TO THE SECRETARY, THE TREASURY, NO. F.-6183-29, DATED THE 9TH OCTOBER 1929.

I am directed to inform you that the Banking Enquiry Committee which has been set up by the Government of India is investigating questions connected with the financing of the foreign trade of India, and that in this connection it is desired to ascertain whether there exists in the United Kingdom any, and what, impediment or differentiation (legal or administrative) against the setting up in this country of branches of banks established overseas—*e.g.*, in India and/or against the conduct of banking business by such branches. Mr. Secretary Benn will be glad if he may be supplied with any information bearing on this point.

FROM G. H. BAXTER, ESQ., INDIA OFFICE, LONDON, TO THE UNDER SECRETARY OF STATE, FOREIGN OFFICE, NO. F.-6183-29, DATED THE 9TH OCTOBER 1929.

I am directed to inform you that the Banking Enquiry Committee which has been set up by the Government of India is investigating questions connected with the financing of the foreign trade of India, and that in this connection it is desired to ascertain, as regards certain representative foreign countries, whether there exists any, and what, impediment or differentiation (legal or administrative) against the setting up in the respective countries of branches of non-national—*e.g.*, Indian—banks and/or against the conduct of banking business by such branches. I am to enquire whether, should Mr. Secretary Henderson see no objection, information as to the position in this respect in the following countries, *viz.*, Germany, Italy, Holland, France and the United States of America, may be obtained through His Majesty's Representatives in those countries, and communicated to this Office.

No. L. 7507-6653-405.

The Under Secretary of State for Foreign Affairs presents his compliments to the Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copy of the undermentioned papers.

FOREIGN OFFICE, S. W. 1.

30th November 1929.

REFERENCE TO PREVIOUS CORRESPONDENCE :

India Office letter No. F. 6183-29, dated 9th October 1929.

DESCRIPTION OF ENCLOSURE.

Name and date.	Subject.
From Department of Overseas Trade, No. 21855-1929, dated the 19th November 1929. To H. M. Representatives :— Washington, No. 1646, dated the 26th November 1929. Rome, No. 1318, dated the 26th November 1929. The Hague, No. 542, dated the 26th November 1929. Berlin, No. 1433, dated the 26th November 1929. Paris, No. 2518, dated the 26th November 1929.	Desire of the Government of India to ascertain the attitude of various foreign governments towards the establishment of branches of Indian banks in their respective countries.

Similar letter sent to D. O. T.

Copy.

(L. 7507-6653-405.)

21855-1929.

The Comptroller-General of the Department of Overseas Trade presents his compliments to the Under Secretary of State for Foreign Affairs and with reference to Foreign Office memorandum of the 15th October, begs to transmit herewith notes on restrictions or impediments to the establishment of non-national banks in certain foreign countries. In view of the importance of the enquiry, however, it is thought that *ad hoc* enquiry should be made in each of the countries concerned in order to ensure that the information furnished to the India Office is complete and up-to-date.

DEPARTMENT OF OVERSEAS TRADE,
35, OLD QUEEN STREET,
LONDON, S. W. 1.
19th November 1929.

Copy.

(L. 7507/6653/405.)

Notes on position of British Banks operating in certain Foreign countries.

United States of America.

According to a report of May 1923 an alteration in the banking law of New York State was proposed which would permit foreign banks to accept deposits, a proceeding hitherto illegal. No information as to progress in this direction is available.

Difficulties may also arise in regard to taxation and "attachment" (see enclosed copy of a letter dated 16th July 1925 to His Majesty's Consul, New York City).

Italy.

Under the provisions of a decree of 4th September 1919 foreign banks with headquarters or branches in Italy must obtain a licence to trade, duly authorised by the Ministry of the Treasury. The granting or refusal of a licence may be influenced by the treatment which Italian credit institutions enjoy in the country of origin of the applicant. The grant may entail the acceptance of conditions and failure to respect these conditions may cause the concession to be declared null and void. Otherwise no differentiation between Italian and foreign banks would appear to exist.

Difficulty may also arise in determining the profits, etc., liable to taxation if the foreign company carries on business in Italy through a branch instead of creating a separate company under the régime of the Italian Commercial Code.

Netherlands.

The only differentiation against foreign concerns that has been traced is that which, according to a report by the United States Assistant Commercial Attaché at The Hague, arises out of a law passed in 1928. This law, it is stated, imposes a capital tax on foreign firms and individuals doing business in the Netherlands. Particulars are given in the attached memorandum. It is not known whether this law is yet in operation.

Germany.

A copy of a note on the position of British banks in Germany, prepared in 1925, is attached.

France.

Certain taxation difficulties may arise. It is understood that where a foreign company controls a French company, the taxation authorities may claim the right not only to tax the French company, but also to tax the parent foreign company upon a proportion of its registered capital. The taxation of a branch establishment may also give rise to some difficulty, as the tax authorities may refuse to accept the figures submitted in respect of the branch

itself, and claim the right to levy taxation, based on total profits, in proportion of the French assets to total assets. The authorities may require submission of the accounts of the entire company.

In 1926 the Minister of Finance stated that a Bill had been submitted to the Chamber of Deputies to fix new conditions for establishment of foreign currency in France. So far as is known, the Bill has not been passed. A copy of the despatch of 9th March 1926 is attached.

Law Offices of — 66, BROADWAY,

MURRAY, HOLLAMAN & LOCKWOOD — NEW YORK,

Cable Address " MURHOLWOOD ". — *16th July 1925.*

In re. to English Corporation Doing Business in this country.

DEAR MR. BERNAYS,

Replying to your enquiry as to how an English corporation may most advantageously open an office and transact business here, my opinion, fortified by the experience of this Office, is that it is very much better for any foreign corporation, which proposes to engage largely in business with an office in the State of New York, to do so through a New York corporation organized for that purpose.

The principal difficulties with which a foreign corporation is confronted when it does business here, in its own name, are :

1. ATTACHMENT. Every non-resident (which includes a foreign corporation) is liable to have its property attached in any action, meritorious or otherwise, which may be brought against it here. There is no way of escaping this. Any irresponsible plaintiff who sees fit to bring suit has a right, upon giving a nominal bond, to attach the property of any non-resident he may sue. We had a striking illustration of this some years ago when one of our clients, a large Japanese importing house, maintaining an office and doing a very large business here, was sued by an irresponsible plaintiff for upwards of $25,000. The action was absolutely without merit. The congested condition of our Court calendars prevented the case being tried for over three years. Our client's bank balance was attached, to release which it was obliged to give a bond, upon which it had to pay premiums of approximately $500·00 a year for three years. Just as soon as the case was reached for trial, it was thrown out of Court, but the plaintiff was irresponsible and we were not able to collect the judgment for costs, etc., which we obtained. The result of this experience caused our client to follow the advice we had previously given it, *i.e.*, to form a New York corporation, through which it has since done business with entire satisfaction.

2. TAXATION. Our taxes also present certain complications with respect to foreign corporations.

There are three taxes to be considered, *i.e.*, the State of New York Franchise Tax, the Federal Income and the Federal Capital Stock Tax.

(a) *The State of New York Franchise Tax.*—This is a Franchise Tax measured by the net income of the Corporation. As to foreign corporations, the net income is the income from its New York business. The method of computing this income under the Tax Law is to take such portion of the

entire net income of the foreign corporation, derived from all sources, as its assets in this State bear to its assets everywhere. The result is that a foreign corporation is compelled to make a full report to the New York tax authorities, showing the entire amount of its net income in detail and wherever derived, the entire amount of its gross assets, wherever located, and the amount of its gross assets in New York. We have found that to many of our foreign clients these requirements are very objectionable.

(b) *The Federal Income Tax.*—This is a tax upon its net income derived from sources within the United States. In the case of imports and exports it is held that a profit upon purchases in one country and sales in another is to be taxed to the country in which the sale takes place, *i.e.*, where the profit is taken. This tax does not present the same objectionable features with respect to a foreign corporation as does the New York Franchise Tax, but we have known it to be objectionable.

If a New York corporation is organized for the purpose of carrying on the New York business of a foreign corporation, that business will not be subject to attachment, the foreign company will not have to make reports with respect to its general business and the taxation here can be largely controlled.

The stockholders of a New York Corporation need not be citizens or residents. One director only need be a citizen and a resident of New York, and if the Certificate of Incorporation (Charter or Articles of Association) so provide, the directors need not even be stockholders.

For these reasons I advise the organization of a New York corporation to carry on the business here of a foreign corporation, and, as stated, our experience has been that the results are entirely satisfactory.

I am sending you this letter in duplicate so that you may enclose one, if you desire, to your enquirer.

Faithfully yours,

(Sd.) EDWARD H. LOCKWOOD.

Mr. Lewis E. Bernays,
H. M.'s Consul,
New York City.

NEW COMPANY LEGISLATION IN THE NETHERLANDS.

ASSISTANT COMMERCIAL ATTACHÉ PAUL S. GUINN, THE HAGUE.

Both houses of Parliament in the Netherlands recently passed new laws applying to the conduct of business in the country by foreign firms. The first law levies a capital tax on foreign firms and individuals doing business in the Netherlands, while the second provides for public disclosure of the balance sheets and profit and loss accounts of concerns doing business as domestic limited-liability companies.

Capital Tax Defined.—The new capital tax on foreign firms is levied on the capital invested or used in the Netherlands. Formerly, only an income tax was assessed, but, beginning May 1st, 1928, a capital tax made up of two rates of assessments, will be imposed. However, a reduction has been made

in the rate at which income tax is assessed, amounting to 20 per cent. for individuals, while on foreign corporations the tax has been reduced from 10 florins (8 florins income tax *plus* 2 florins defense tax II) to 8·4 florins (6·4 florins income tax *plus* 2 florins defense tax II).

Division of Capital Tax.—The capital tax will consist of a capital tax proper and a supplementary levy known as "defense tax I". Both assessments are to be made on the capital invested or used in the Netherlands, less certain reductions or minimum allowances. The rate for the capital tax proper is 1 florin, *plus* 55 per cent, or 1·55 florins per thousand, when the capital amounts to 30,000 or more, and 2 florins, *plus* 55 per cent., or 3·10 florins per thousand, when the capital is less than 30,000 florins.

The supplementary defense tax I will be levied on the same basis as the capital tax proper, but provides a definite minimum over which the tax is to be paid and stipulates a progressive scale of rates :

> A pure capital of 50,000 florins or less is free of the supplementary defence tax. On a capital of over 50,000 florins and less than 100,000 the defense tax I rate is 0·3 florin for each 1,000 florins by which the capital exceeds 50,000 : over 100,000 and less than 150,000 florins, a flat charge of 15 florins *plus* 0·6 florin for each whole amount of 1,000 florins by which the capital exceeds 100,000. The scale varies progressively until on a capital of 9,936,000 florins or more a tax of 6 florins is levied for each 1,000.

Registering as Domestic Corporation or Retaining Foreign Nationality.—In view of the additional taxes levied under the new legislation, the question arises as to whether it is advisable for a foreign concern to register as a domestic corporation or to retain its foreign nationality. A domestic corporation as such does not pay a capital tax. Netherland nationals who are shareholders in a domestic concern, however, pay capital tax on the capital invested in the concern and also income tax on the income derived. A foreign corporation registering as a Netherland corporation would not have to pay a capital tax as a corporation nor would foreign individual shareholders living abroad be liable to capital tax on the amount invested in the business in the Netherlands. A Netherland corporation, however, pays a dividend tax of 9·05 per cent. In order to ascertain the corporate nationality of a foreign firm engaged in business in the Netherlands, it is necessary to determine how the total sum of taxation as a foreign firm—made up of the income tax of 8·40 per cent. *plus* the capital tax proper, at rate after deductions are allowed, of 1·55 florins or 3·10 florins per thousand, *plus* the defense tax I (capital tax) at scale of rate in force—compares with the rate of 9·05 per cent. dividend tax which it would be assessed as a domestic concern.

BRITISH EMBASSY,

No. 452 (C.).

PARIS,

(379/1/1926.)

9th March 1926.

SIR,

With reference to the situation of foreign banks in France, I have the honour to acquaint you that the "Journée Industrielle" of the 5th instant published the written reply of the Minister of Finance to a question put to

him by Monsieur Gaudin de Villaine, senator for the Manche, who enquired why foreign banks established in this country were authorised to receive deposits, whereas French banks abroad were not granted the same privilege.

2. Monsieur Doumer stated that at the present moment no legislative provision restricted the rights of foreign banks in France, which were assimilated in all respects, as regards the exercise of their business, to French banks. A Bill, however, had been submitted to the Chamber of Deputies to fix new conditions for the establishment of aliens in France. If this Bill were passed it would make it possible to assure reciprocity in the treatment of foreigners established in France and French citizens established abroad. As regards French banks established abroad, every country was free to legislate as it pleased. The different laws in this matter were more or less liberal, but in a number of countries, as in France, no distinction was made between nationals and aliens in respect of the exercise of trade in all its forms.

I have, etc.,

(Sd.) CREWE.

The Right Honourable
Sir Austen Chamberlain, K.G., M.P.,
etc., etc., etc.

NOTE ON POSITION OF BRITISH BANKS IN GERMANY, 25TH NOVEMBER 1925.

"If the British bank which intends to open a branch in Germany, is a limited company or otherwise a corporation recognised by English law, a license to carry on business must be applied for. It is issued by the competent Ministries in the various Federal States.

If this license has been granted, foreign corporations are, on principle, entitled to carry on business to the same extent as German undertakings.

The only restriction to which a branch of a foreign corporation (if established in Prussia) would be subject, whether carrying on banking or other business, is the following:

As far as the acquisition of landed property is concerned, a company not incorporated in Prussia has to ask for the consent of the Prussian Government, in pursuance of article 7, paragraph 2 of the Prussian Amendment Act to the German Civil Code, of paragraph 54 of the Act of the 12th May 1901, of an ordinance of November 28th and of a further Prussian Act of the 14th November 1918. In my opinion these provisions are maintained by Article 16, paragraph 6 of the Anglo-German Commercial Treaty.

Similar provisions restricting the right of acquiring immoveable property apply in other German Federal States.

If, apart from this restriction, the license for carrying on business has been obtained from the Government, a branch office of an English bank is not in any other way restricted or limited because it is the property of a foreign undertaking.

Nevertheless, attention must be paid to the fact that since 1920, and also through an Act of the 26th June 1925, all banking undertakings—whether German or foreign—are limited in carrying on business as follows:

According to paragraph 4 of the Act (see Reichsgesetzblatt, 1925, Part I, page 89) only those banking firms which already existed on the 16th January 1920, or which belong to persons who were at that date entitled to carry on banking business, are allowed to receive deposits and securities as bailees and to let safes.

If new companies or corporations intend to start such business, a special consent has to be obtained from the Highest Administrative Authorities, after the Reichsbank and the competent Ministries have been asked.

Therefore, if a branch of a foreign bank wants to carry on general banking business, it has to obtain such a consent. It is left to the discretion of the Government whether the banking business is allowed to the full extent or not. In any case, the consent will be given only if the branch office has sufficient funds in Germany for carrying on the business and if the admission will be in the interest of the public. The latter would be the case if the office were a branch of an English bank of good standing.

If the consent is refused, the branch office would be limited to transacting other banking business, such as the granting of loans, discounting of bills, etc.

Apart from the above restriction, German or foreign banking undertakings, if duly established, are not limited in any other way.

Of course any branches of foreign banks opened in Germany are subject to the German Tax laws. The branches would have to pay income tax according to the provisions of paragraph 3 of the Corporation Tax Law. All profits accruing from land situated in Germany and from the trade carried on in this country are subject to income tax. In certain cases it will be difficult to ascertain which portion of the total income of the foreign corporation has been earned in Germany and which abroad, and in order to ascertain this the tax authorities will demand to see the balance-sheet, not only of the branch in Germany, but also of the English corporation.

Further, tax on property will be levied upon that part of the property of the corporation which is situated in Germany."

FROM THE SECRETARY OF STATE, FOREIGN OFFICE, LONDON, TO HIS EXCELLENCY THE RIGHT HONOURABLE SIR R. W. GRAHAM, G.C.M.G., G.C.V.O., ETC., ETC., ETC., ROME; H. STEVENSON, ESQ., ETC., ETC., ETC., THE HAGUE; THE HONOURABLE H. G. NICOLSON, C.M.G., ETC., ETC., ETC., BERLIN; R. H. CAMPBELL, ESQ., C.M.G., ETC., ETC., PARIS AND R. I. CAMPBELL, ESQ., ETC., ETC., ETC., WASHINGTON, NO. 1318 (L. 7507/6653/405), DATED THE 26TH NOVEMBER 1929.

I transmit to Your Excellency herewith a copy of a letter No. F. 6183-29 of the 9th ultimo, from the India Office, relative to the desire of the Banking Enquiry Committee which has been set up by the Government of India to ascertain, as regards certain representative foreign countries, whether there exists any, and what, impediment or differentiation (legal or administrative) against the setting-up of branches of non-national banks or against the conduct of banking business by branches of such banks.

2. In view of the importance of the enquiry, it is considered advisable to ensure that the information furnished is complete and up-to-date and I therefore request that you will inform me whether you consider that the enclosed information in respect of Italy furnished by the Department of Overseas Trade who were consulted in the first instance in regard to the matter should be in any way amplified or modified.

3. A despatch in similar terms is being addressed to His Majesty's Representatives at Washington, The Hague, Berlin and Paris.

FROM G. H. BAXTER, ESQ., WHITEHALL, LONDON, TO V. K. A. AYANGAR, ESQ., C.I.E., INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, NEW DELHI, DATED THE 6TH DECEMBER 1929.

Establishment in the United Kingdom of branches of Banks established overseas.

In continuation of my letter of 4th December, No. F. 7382-29, I enclose a copy of a letter from the Treasury, No. F. 8592-2, dated 5th December 1929, and for convenience of reference I also enclose a copy of the Companies Act, 1929.

As you will see, the requirements with which a Company registered in India and wishing to establish a place of business in Great Britain would have to comply, correspond closely to the obligations imposed upon Companies registered in England.

It is understood, moreover, that the Bank of England have never opposed the opening by foreign banks of agencies in London, and there is no reason to suppose that they would not maintain the same attitude with regard to Indian banks.

FROM R. V. NIND HOPKINS, ESQ., TREASURY CHAMBERS, TO THE UNDER SECRETARY OF STATE, INDIA OFFICE, NO. F. 8592-2, DATED THE 5TH DECEMBER 1929.

I have laid before the Lords Commissioners of His Majesty's Treasury Mr. Baxter's letter of the 9th October last (F. 6183-29) enquiring whether any impediments or differentiations (legal or administrative) exist in the United Kingdom against the setting up of branches of banks established overseas.

In reply, I am to request you to inform the Secretary of State for India in Council that a Company registered in India wishing to establish a place of business in Great Britain would be under an obligation to file the documents required by Sections 344, 346 and 347 of the Companies Act, 1929, and to comply with the provisions of Sections 348, 349, 350 and 352 subject to the penalties for non-compliance set out in Section 351. Attention should also be directed to the provisions of Sections 345, 354 and 355.

Subject to compliance with these requirements, My Lords are not aware of impediments against the setting up in this country of branches of banks registered in India.

OFFICIAL LETTER FROM G. H. BAXTER, ESQ., INDIA OFFICE, TO V. K. A. AYANGAR, ESQ., C.I.E., No. F.-7827/29, DATED THE 18TH DECEMBER 1929.

With reference to my letter of 6th December, No. F.-7521/29, I forward, for information, copy of the papers noted below.

Letter to Foreign Office from H. M. Representative in Paris, No. 1665, dated 11th December 1929, with enclosure (Memorandum).

LETTER FROM R. H. CAMPBELL, ESQ., BRITISH EMBASSY, PARIS, TO THE RIGHT HONOURABLE ARTHUR HENDERSON, No. 1665 (915/2/29), DATED THE 11TH DECEMBER 1929.

With reference to your despatch No. 2518 (L.-7507/6653/405) of the 26th ultimo, relative to the wish of the Banking Enquiry Committee, which has been set up by the Government of India, to obtain information regarding the régime applicable to foreign banks established in this country, and to transmit to you, herewith, a memorandum on this subject, which has been prepared by the Commercial Counsellor.

MEMORANDUM.

Foreign banks may establish branches in France without let or hindrance. Such banks carry on their operations on exactly the same terms as French banks and there is no legal or administrative discrimination. At various times proposals have been made to regulate with more stringency the profession of banker in this country, but the intention was not to interfere with foreign banks but to prevent the not infrequent scandals which have occurred recently as a consequence of the default or fraudulent practices of small banking concerns operated by unscrupulous persons both in Paris and the provinces. Hitherto however, none of these proposals has become law * * * * * * * * * * * * *

The three leading United Kingdom banks in Paris, which are subsidiaries of leading institutions in England, are English companies operating in France. No difficulties have been put in their way in the matter of taxation and the French authorities have never claimed to levy taxes based on the total profits of the parent houses. A case is stated to have arisen, however, where a foreign, but not British bank, which started a branch in France and subsequently transformed it into a separate company, was made the subject of enquiries by the taxation authorities, but it is not known whether the matter was pushed further.

BRITISH EMBASSY,

PARIS;

The 9th December 1929

DEMI-OFFICIAL LETTER FROM MR. G. W. P. MARTEN TO V. K. A. AYANGAR, ESQ., C.I.E., SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. F. 5-1930, DATED WHITEHALL, LONDON, THE 2ND JANUARY 1930.

Treatment of Non-National Banks in certain foreign countries.

In continuation of Baxter's letter of 18th December, No. F. 7827, I forward, for information, copy of the papers noted below on the above subject.

Letter to Foreign Office from H. M.'s representative in Rome, No. 823(C.) dated 10th December 1929.

LETTER FROM THE BRITISH EMBASSY, ROME, No. 823 (C.), DATED THE 10TH DECEMBER 1929.

I have the honour to acknowledge receipt of your despatch No. 1318 (L.-7507/6653/405) of the 26th November, relative to the desire of the Banking Enquiry Committee which has been set up by the Government of India, and beg to report as follows.

2. The information furnished by the Department of Overseas Trade is, in general, correct, but the following additional information will no doubt be useful.

3. There are no objections against the setting up of branches of non-national banks in Italy or against the conduct of banking business by branches of such banks, provided that certain conditions are complied with.

4. The dispositions of the Royal Decree of the 4th December 1919 and also of Royal Decree of the 20th February 1921, No. 483, still apply to foreign banks intending to set up a branch in Italy or the Italian Colonies, in so far as they are not in contradiction with the present laws, and they also give the faculty to the Minister of Finance to demand the deposit of the guarantee in corollary to the class of operations which the bank proposes to carry on in Italy or in the Italian Colonies.

5. There is a further and more recent Decree of the 6th November 1926 which was published in the "Gazzetta Ufficiale" No. 289, page 5548 on the 16th December 1926. Article 4 of this Decree states that Banks which intend to set up after the date of publication of the Decree must be established with a minimum capital of Lit. 50,000,000 if constituted as a shareholding company of ordinary credit, intending to carry out its activities in many districts. If the company only intends to carry out regional activity, then the capital must be Lit. 10,000,000. Should it be intended that the company work in the provinces, the amount of the capital must then be Lit. 5,000,000 ; if the company is to be a co-operative society with limited responsibility (banca popolare) intending to work only in one province, the minimum capital must be Lit. 300,000. If such a company should eventually expand, it must carry out the demands which are made for a company of ordinary credit, *i.e.*, have a minimum capital of Lit. 50,000,000.

6. For banks which are the property of a single person, or which are constituted in collective names or as sleeping partnerships, the same laws apply as for companies of ordinary credit.

7. Further, it is laid down in Article 5 of this Decree that any bank (*i.e.*, Italian Company) wishing to set up in Italy or in the Italian Colonies must obtain the authorisation of the Ministry of Finance, which should be presented to the Manager of the Branch of the Bank of Italy in the chief lieu of the province in which the bank intends to establish its Head Office.

3. This request should contain the following particulars :—

(a) The denomination of the company.

(b) The form in which it is intended to constitute the company.

(c) The kind of banking activities which it is proposed to carry on.

(d) The amount of capital.

(e) Where the Head Office is to be and Branches which may be opened.

6. In conclusion I would state that I agree with the last paragraph of the Minute by the Department of Overseas Trade to the effect that difficulty may arise in determining the profits, etc., with regard to taxation. The question of taxation on all companies in Italy is a very complicated one and there is also the question of whether the foreign company establishes itself for the purpose of carrying on its business in Italy through a branch instead of creating a separate company under the régime of the Italian Commercial Code. Therefore, before any foreign banking company decides definitely to start business in Italy, it would be well for them to take legal advice as to the best way in which the company should be formed, also going carefully into the question of taxation. There are no doubt many capable lawyers in Italy who could draw up the necessary petition for licence to trade, and give competent advice on this matter as well as on that of taxation, and I am sure that Avv. Serrao, O.B.E., the Lawyer to this Embassy, would also be capable to act in such questions as he has had considerable experience in the past in dealing with the formation of British Banks, insurance companies and business firms in this country.

DEMI-OFFICIAL LETTER FROM MR. G. W. P. MARTEN, TO V. K. A. AYANGAR, ESQ., C.I.E., SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. F. 258/30, DATED THE 10TH JANUARY 1930.

Treatment of Non-National Banks in certain foreign countries.

In continuation of my letter of 2nd January, No. F.-5, I forward, for information, copy of the paper noted in the margin, on the above subject.

Letter to Foreign Office from His Majesty's Representative at The Hague, dated the 28th December 1929.

LETTER FROM BRITISH LEGATION, THE HAGUE, No. 174, DATED THE 28TH DECEMBER 1929.

With reference to your despatch No. 512 (L.-7507/6653/405) of the 26th ultimo, I have the honour to report that Mr. R. V. Laming, Commercial Secretary to this Legation, has informed me that there exists no impediment or differentiation (Legal or Administrative), in the Netherlands against the setting up of branches of non-national banks or against the conduct of banking business by such banks, beyond that mentioned in the report by Mr. P. S. Guinn enclosed in your despatch under reference.

2. Mr. Laming has further informed me that he considers that particulars furnished by the Department of Overseas Trade to be correct. The only addition required is that the Netherlands law of May 1st, 1928, entered into operation on that date.

FROM G. H. BAXTER, ESQ., INDIA OFFICE, WHITEHALL, LONDON, TO V. K. A. AYANGAR, ESQ., C.I.E., CENTRAL BANKING ENQUIRY COMMITTEE, NEW DELHI, No. F. 1212/30, DATED THE 17TH FEBRUARY 1930.

With further reference to your letter of the 17th September 1929, No. 330, I enclose a copy of a communication received by the Foreign Office from the British Embassy at Washington giving information regarding the conditions, under which Branches of foreign Banks may operate in the State of New York together with the three printed documents referred to therein.

FROM THE BRITISH EMBASSY, WASHINGTON, D. C., TO THE RIGHT HONOURABLE ARTHUR HENDERSON, M.P., No. 185, DATED THE 30TH JANUARY 1930.

With reference to Foreign Office despatch No. 1646 of 26th November 1929 (L. 7507/6653/405) regarding the desire of the Government of India to receive information regarding the conditions under which branches of foreign banks may operate in the United States, I have the honour to transmit copies of a memorandum prepared by the Commercial Secretary in which the general situation as regards foreign banks in the United States is set forth.

2. It will be observed that as each of the forty-eight States is empowered to prescribe its own regulations Mr. Pack has only dealt in detail with the State of New York on the assumption that any branches of Indian banks set up in the United States would most likely be established in New York City. Should the Government of India desire to receive similar details for any other State I shall be glad to arrange accordingly.

3. A copy of this despatch has been sent direct to the Department of Overseas Trade.

MEMORANDUM REGARDING THE REGULATION OF FOREIGN BANKS IN THE UNITED STATES.

There is no provision in the *federal* statutes for the establishment under national authorization of branches of foreign banks in the United States. Each of the forty-eight States in the Union is empowered to make its own regulations regarding banks established within its jurisdiction. It is obviously unnecessary to consider the regulations of each separate State as it is most unlikely that any foreign bank would desire to establish a branch in the great majority of the inland States. In actual practice New York is the State in which branches of foreign banks are largely established and for the present purposes of the Government of India it might suffice to examine the conditions

under which such foreign branches may operate in that State. I have therefore procured through the courtesy of the British Consul General at NewYork copies of the following documents :—

The Banking Law—1929.

Bulletin No. 1 of the New York State Banking Department on State Banks.

Regulations of the New York State Tax Commissioners relative to the Tax on State Banks.

The regulations of the New York State Banking Department prescribe what operations a foreign bank may perform. Any function not mentioned is therefore deemed to be prohibited. Under the present regulations a foreign bank authorized to operate in the State may buy, sell or collect bills of exchange, issue letters of credit, receive money for transmission, transmit such money by draft, cheque, cable, or otherwise or make sterling or other loans. A foreign corporation may also do the business of a New York investment company if it files with the Superintendent of Banks a statement containing detailed information regarding its financial conditions, deposits with the Superintendent of Banks the sum of $100,000, and complies with the general laws of the State governing such companies. It will be seen that a foreign bank is not allowed to receive ordinary deposits, accept deposits or other property in trust, act in any other fiduciary capacity, engage in the savings or loan business, nor authorized to make discounts. The general procedure to be followed by foreign banking corporations in applying for a license to operate in the State of New York is set forth on page 38 of the enclosed Bulletin No. 1. Briefly stated the statutes require that such corporations file their applications with the Superintendent of Banks, stating the name of the corporation, where it desires to transact business, the amount of its capital, the value of its assets (which must be at least $250,000 in excess of liabilities), a financial statement, a copy of its charter, and certain other details. A foreign bank must also designate the Superintendent of Banks as its attorney on whom all legal processes may be served. A certificate to do business, good for one year, is issued by the Superintendent of Banks on payment of a fee of $250, when this official is satisfied that all legal requirements have been met, and that it is safe and expedient to allow such corporation to establish itself within the State. This certificate may be revoked if the Superintendent is satisfied that the bank is doing an unauthorized or unsafe business or if the bank itself becomes unsafe.

(Sd.) A. J. PACK,

Commercial Secretary.

Demi-official letter from G. H. Baxter, Esq., India Office, Whitehall, London, S. W. 1, to V. K. A. Ayangar. Esq., C.I.E., Central Banking Enquiry Committee, New Delhi, No. F.-1692/30, dated the 18th March 1930.

Treatment of non-national bank in certain foreign countries.

In continuation of my letter of 17th February, F.-1212, I enclose a copy of a despatch from the British Embassy in Berlin to the Foreign Office, London, forwarding a note on the position of British banks in Germany in February 1930.

British Embassy,

Berlin,

27th February 1930.

No. 148.

236/2/30.

SIR,

With reference to your despatch No. 1433 (L.-7507/6653/405) of the 26th November last, regarding the desire of the Banking Enquiry Committee of the Government of India to obtain information as to the establishment of branches of non-national banks in foreign countries, I have the honour to transmit to you herewith a memorandum based on the reply received from the Ministry for Foreign Affairs to enquiries addressed to them in the matter.

2. This information relates only to Prussia. The conditions applicable in the other German States will be forwarded as soon as the necessary particulars have been obtained.

I have etc.,

(SD.) HORACE RUMBOLD.

The Right Honourable
Arthur Henderson, M.P.,
etc., etc., etc.

Note on position of British banks in Germany, February, 1930.

The establishment of branches of British banks in Prussia, is in every case dependent on the permission of the competent ministry, if the bank is to be in the form of a corporation recognised by law. According to Article 7 paragraph 2 of the Prussian law governing the application of the Civil Code the permission of the competent ministry is also required if a foreign body corporate wishes to acquire landed property in Prussia. The proclamation of the 15th March, 1918 (Reichsgesetzblatt page 123) of the Federal Council, governing transactions in agricultural landed property contains restrictions as to purchase which are applicable to nationals and foreigners in general.

Apart from the foregoing, the only other law which would interest German branches of British banks is the mortgage bank law of the Reich of the 13th July, 1899. The regulations mentioned under 1 and 2 of this law are no longer in force. The decree of the 8th November, 1924 (Reichsgesetzblatt I page 729) amending the legislation governing foreign currencies has been abolished (see regulation of the 22nd February, 1927, Reichsgesetzblatt I page 67). The law governing deposit business of the 26th June, 1925 (Reichsgesetzblatt I page 89) expired on the 31st December, 1929.

Demi-official from G. H. Baxter, Esq., India Office, Whitehall, London, S. W. 1, to V. K. A. Ayangar, Esq., C.I.E., Central Banking Enquiry Committee, No. F.-2870/30, dated the 24th April 1930

Treatment of non-national banks in certain foreign countries.

In continuation of my letter of 18th March, F.-1692, I enclose copies of two despatches, dated 5th and 11th April, respectively, with enclosures, from the British Embassy in Berlin to the Foreign Office, London, giving further particulars regarding the establishment of branches of foreign banks in Germany.

The ministerial ordinance dated 11th December 1906 mentioned in the enclosure to the earlier despatch has not been received, but a copy is being obtained and will be forwarded in due course.

British Embassy,

Berlin,

5th April, 1930.

No. 263,

236/3/30.

Sir,

With reference to my despatch No. 148 of the 27th February, forwarding a note on the position of British banks in Prussia, I have the honour to transmit herewith a similar note with regard to Bavaria, based on information obtained from the legal adviser to His Majesty's Consulate-General at Munich and from the Ministry of Commerce. I understand from His Britannic Majesty's Vice-Consul at Munich that two types of licences are issued, one for full bankers and another for bank brokers to whom the opening of current accounts is not permitted. The licences are granted by the Chamber of Commerce.

I have, etc.,

(Sd.) HORACE RUMBOLD.

The Right Honourable
Arthur Henderson, M.P.,
etc., etc., etc.

Note on the position of British companies in Bavaria.

1. The establishment of branches of British companies, including banks, in Bavaria is governed by the Bavarian Law of 30th January, 1868, which is also applicable to Bavarian commercial enterprises. Article 2, paragraph 8 of this law stipulates that foreign concerns may only operate in Bavaria after special authority has been granted by the government, unless provision for this has already been made by treaty.

2. Application for permission to operate in Bavaria must be made in accordance with the ministerial ordinance of 17th December, 1906, copy annexed.

3. Attached herewith is a copy of a memorandum for the use of officials of the Ministry of Commerce when dealing with the establishment of foreign companies.

Conditions for the granting of permission to foreign companies to carry on business in Bavaria in accordance with para. 12 of the Federal Order (Reichgewerbeordnung) and Art. 2, Section 3 of the Bavarian law relating to industrial undertakings (Gewerbegesetz).

1. The company is bound to appoint a general agent holding a power of attorney and to inform the Ministry of Commerce, as well as the competent district government (Kreisregierung) of the appointment and any change therein by means of a legalised copy of the power of attorney.

2. The attorney must, before the permission is granted acknowledge in writing as agent of the company that the company is aware of the conditions under which the permission is granted and that it will in the conduct of its business conscientiously observe them as well as the German laws and other stipulations, especially those in connection with the exportation and importation of goods. The signature of the attorney must be officially legalised.

3. The company is bound to found a branch establishment in Bavaria in the sense of the commercial laws and as such regularly to conclude its contracts with officials of the Reich in so far as other branches are not involved. The competency of the courts as defined in paras. 21 and 23 of the order governing civil procedure may not be excluded by agreement.

4. Every alteration or addition to the company's articles of association must be reported not only to the Ministry of Commerce for the purpose of being entered in the commercial register, but also to the district government.

5. For the purpose of prospectuses and public notices the description of property of the company should be confined to a statement of the capital which the shareholders are responsible for providing, but the amount of the share capital which has been actually paid up must be shown.

6. Within three months of the expiration of each business year, the company must send to the Ministry of Commerce copies in German of the following:

(a) General statement of account of the company.

(b) Special statement of account and balance sheet of the branch, the capital of the branch being shown separately.

The Ministry reserves the right of publishing the statements of account and balances.

The actual value of all assets and loans are to be shown in the statement of account. Doubtful book debts are to be shown at their probable value and uncollectable debts not included.

7. The establishment of additional branches or offices in Germany can only be made with the sanction of the Ministry of Commerce.

8. Permission to carry on business in Bavaria may be withdrawn at any time without reason being given and the conditions under which permission may have been given, changed or supplemented. The right of withdrawal of permission is specially reserved in cases where full reciprocity for German undertakings in the company's own country is not assured.

9. This permission does not cover authority to acquire landed property in Bavaria which in every instance is dependent on the specific authorisation of the Bavarian Government.

British Embassy,

Berlin,

11th April, 1930.

No. 284,

236/4/30.

SIR,

With reference to my despatch No. 263 of the 5th instant, regarding the establishment of foreign banks in Germany, I have the honour to transmit herewith notes as to the legislation on this subject in Wuerttemberg and the Free States of Anhalt, Saxony and Thuringia, supplied by His Majesty's Consular Officers at Frankfort and Leipzig.

2. I am informed by His Majesty's Consul at Bremen, regarding the establishment of foreign banks in Bremen and Oldenburg, that no local permission is necessary and that the Reich laws are applicable in both States.

I have, etc.,

(Sd.) HORACE RUMBOLD.

The Right Honourable
Arthur Henderson, M.P.,
etc., etc., etc.

Translation of a communication received from the Justizministerium in Wuerttemberg.

Trading by foreign juridical person in Wuerttemberg is governed by the Wuerttemberg law for the execution of the German Civil Code of July 28th, 1899 (Reg. Bl. page 425) without prejudice to existing State treaties.

ARTICLE 282:

"Foreign Joint Stock Companies, Joint Stock Companies on commandite, and juridical persons require the permission of the Government in order to carry on in Wuerttemberg on existing business either through a branch office or a permanent agency, if the object of the undertaking is banking and credit business or goods or life insurance, including annuity contracts, or if in the foreign State in question companies or persons who

are nationals of Wuerttemberg also require the permission of the Government for carrying on a similar business.

Instead of the Ministry of the Interior the Ministry for Economic Affairs is now competent for the issue of the Government permission."

Establishment of British banks in the Free States of Anhalt, Saxony and Thuringia.

As regards the Free States of Thuringia and Anhalt no permission on the part of the State is required.

2. As regards the Free State of Saxony, the question is governed by paragraph 5 of the laws, dated November 10, 1899, governing the fulfilment of the Commercial Code, the law governing Internal Navigation, and the law governing Lumbering (Printed in the Saxon Official Publication, 1899, page 562) which reads as follows:

"Foreign corporative bodies, joint stock companies and limited liability companies, require in order to carry on business in Saxony through a branch establishment or through an agreement with the local representative the permission of the State in as far as it has not been otherwise determined by a State Treaty. Such permission is revocable. The competent authority for the granting of the permission and for revoking same is the Ministry of the Interior; in the case of mining concerns both the Ministries of the Interior and Finance must be consulted.

Before a Branch is registered in the Commercial Register the fact that permission to found it has been granted must be proved to the Registration Court.

As far as Insurance Companies, which are not Saxon companies, are concerned, the regulations are not applicable."

With regard to Saxony, the Ministry of Commerce is competent and not the Ministry of the Interior as provided for in paragraph 5. It is usual for the Ministry of Commerce when dealing with the permission of a foreign company to insert the clause "Right of Revocation at any time is reserved."

Staff.

As far as the Free State of Saxony is concerned permission must be obtained from the competent Police Authorities, who consult the local Chamber of Commerce. The Chamber of Commerce in its reply bases its opinion upon the condition of the labour market.

In the Free State of Thuringia the "Permit de sejour" must be obtained from the competent president of the district or the Town Director. The duration of the permission is limited. It is customary with the Thuringian Authorities before granting the permission or renewing same to consult the President of the Ministry of Labour as to the state of the labour market.

In the Free State of Anhalt the position is similar to that of Thuringia, the Chamber of Commerce at Bessau being the authority concerned.

Generally speaking, residential permits are readily granted to the Heads of Firms but not so readily to the staff employed.

DEMI-OFFICIAL LETTER FROM G. H. BAXTER, ESQ., INDIA OFFICE, WHITEHALL, LONDON, S. W. 1, TO V. K. A. AYANGAR, ESQ., C.I.E., INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, BANGALORE, No. F.-3056/30, DATED THE 1ST MAY 1930.

SUBJECT :—*Treatment of non-national banks in certain foreign countries.*

In continuation of my letter of 24th April, F.-2870, I enclose a copy of a despatch, dated 17th April, with enclosures, from the British Embassy in Berlin to the Foreign Office, London, regarding the establishment of branches of foreign banks in the States of Hamburg, Lübeck and Mecklenburg-Schwerin.

LETTER FROM THE BRITISH EMBASSY, BERLIN, TO THE RIGHT HONOURABLE ARTHUR HENDERSON, M.P., ETC., ETC., No. 305 (236/5/30), DATED THE 17TH APRIL 1930.

With reference to my despatch No. 284 of the 11th instant, I have the honour to transmit herewith notes on the legislation concerning the establishment of foreign banks in the States of Hamburg, Lübeck and Mecklenburg-Schwerin, supplied by His Majesty's Consul-General at Hamburg and His Majesty's Vice-Consul at Lübeck.

HAMBURG,

28th March 1930.

DEAR MR. OLIVER,

In reply to your communication of the 3rd instant, Ref. No. 680/30, I beg to inform you that for the establishment of bank branches no special permission from the State is required in principle according to existing Hamburg and Reich law. Should the branch as such, however, acquire legal competence, *i.e.*, be competent independently to acquire rights for itself and to assume liabilities, the special regulations affecting the establishment of so-called "Juridical persons" must be observed, which in this case comprise especially joint-stock companies (Aktiengesellschaften) and limited liability companies (Gesellschaften mit beschraenkter Haftung). The information which you have received from your Embassy in Berlin would apply in such case.

Persons (other than juridical) of British or Irish nationality do not require permission to acquire real estate. On the other hand for the acquisition of real estate in the State of Hamburg by juridical persons, even those of German nationality, the permission of the State judicial administration (Landesjustizverwaltung) is necessary in accordance with paragraph 28 of the Hamburg law governing the application of the Civil Code (Buergerliches Gesetzbuch).

Whether State judicial regulations exist in Brunswick, Lippe and Schaumburg Lippe in regard to the points in question, I am, to my regret, unable to ascertain with certainty.

(Signed) MERCK

HAMBURG LAW GOVERNING THE APPLICATION OF THE CIVIL CODE, PARAGRAPH 28.

The acquisition of real estate by foreigners depends on the permission of the Senate. The right of foreign heirs to transfer real property belonging to an estate is not affected by this decision. Juridical persons belonging to a foreign State are considered to be foreigners in the sense of these regulations.

The law regarding the acquisition of real estate dated 20th March 1863 is repealed.

Translation.

Drs. Cumie & Dane, Lawyers, entered at the Supreme Hanseatic Court of Appeal at Hamburg and at the High Court and Lower Court of Justice at Luebeck, and notaries public.

Luebeck, 10th March 1930.

DEAR SIR,

With reference to the opinion desired by the British Consulate-General in Hamburg, I beg to make the following observations :—

The Reich statutes and Reich decrees mentioned in the second and third paragraph of the Consul-General's letter naturally apply also to Luebeck, but I cannot help thinking that a misconception has arisen in so far as it is stated that paragraphs 1 and 2 of the mortgage bank law of July 13, 1899, are no longer in force ; at least I have discovered no law by which those sections have been repealed.

Of the Reich laws, however, there is another which should be mentioned, namely, paragraph 12 of the Gewerbeordnung in which it is laid down that as far as the industrial activity of juridical persons is concerned, the same remains subject to the law of the State so that State regulations apply to that extent. I have, however, ascertained that no such regulations have been promulgated in Luebeck.

In addition one must also take into consideration article 10 of the law governing the application of the Civil Code in which it is stated that a legally constituted foreign association—and it is conceivable that, especially in contemplation of foreign law, the form of an association (Verein) might possibly apply in the case of a banking concern—is regarded in Germany as legally constituted provided its legal competence is recognised by a resolution of the Bundesrat. Hence it follows that, having regard to the conditions laid down for the carrying on of the business of banking, one must distinguish between the various forms which the undertaking may assume, namely, whether they are *Offene Handelsgesellschaften, Kommanditgesellschaften, Aktiengesellsschaften, Kommanditgesellschaften auf Aktien, Gesellschaften mit beschraenkter Haftung* or legally constituted *Vereine.*

In article 88 of the law governing the application of the Civil Code it is further laid down that the regulations contained in State laws, which make the acquisition of real estate by foreigners dependent on the permission of the State, remain unaffected. On this article rest the provisions of article 7 of the Prussian law governing the application of the Civil Code, as mentioned in the Hamburg letter. Hamburg has apparently issued a similar regulation in paragraph 28 of the Hamburg law governing the application of the Civil Code. Luebeck, however, has made no such regulation.

Regarding the *Aktiengesellschaften* which form of company probably comes first into consideration, attention must be drawn to paragraph 201 of the commercial code in section 5 of which it is laid down that, where notice is given with a view to the entry of a company in the trade register, if the head office of the company is abroad, in addition to the usual documentary evidence it must be shewn in certain cases that permission to carry on in Germany the business in question has been granted by the State. Whether such special permission is required depends as is indicated in paragraph 12 of the Gewerbeordnung on the nature of the business itself.

As regards banks apparently no special regulations exist here in Lübeck, in any case I have been unable to ascertain anything positive, neither at the Chancellery of the Senate, nor at the Chamber of Commerce, nor at the Stadt- und Landamt, and therefore one may safely assume that the special permission of the State is not required.

In addition it is probable that certain provisions of the Anglo-German commercial treaty would come into question in which it is agreed that as a matter of principle any company belonging to the one state may also do business in the other state and found branches there.

To

Consul Hermann G. Stolterfoht,

Luebeck.

POSITION OF FOREIGN BANKS IN MECKLENBURG-SCHWERIN.

A foreign bank desiring to establish a branch in Mecklenburg must first obtain the sanction of the Ministry of Justice at Schwerin. There appears to be no difficulty in obtaining such sanction.

Should such a branch bank acquire landed property in Mecklenburg it is subject to the provisions of the Bundesratsverordnung of March 15th, 1918, but apart from the Reich regulations it is also subject to special Mecklenburg regulations. H. B. M. Vice-Consul at Luebeck states that when a branch of a foreign bank acquires landed property in Mecklenburg either by purchase or by auction or by the decision of a Court of Law, the Mecklenburg Government may require the property to be alienated again within two years.

COPY OF A DEMI-OFFICIAL LETTER FROM G. H. BAXTER, ESQUIRE, INDIA OFFICE, LONDON, TO V. K. ARAVAMUDHA AYANGAR, ESQUIRE, SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, NO. F.-3456/30, DATED THE 19TH MAY 1930.

Treatment of non-national banks in certain foreign countries.

In continuation of my letter of 1st May, F.-3056, I enclose a copy of a despatch, dated 5th May, with enclosures, from the British Embassy in Berlin to the Foreign Office, London, regarding the establishment of branches of foreign banks in the State of Baden.

COPY OF A LETTER FROM THE BRITISH EMBASSY, BERLIN, TO THE RIGHT HON'BLE ARTHUR HENDERSON, M.P., ETC., ETC., No. 352/(236/6/30), DATED THE 5TH MAY 1930.

With reference to my despatch No. 305 of the 17th of April last, I have the honour to transmit to you, herewith, a note on the legislation concerning the establishment of foreign banks in the State of Baden, which has been supplied by His Majesty's Consul General at Frankfort.

Establishment of Foreign Banks in Baden.

No State regulations exist in Baden regarding the admission of foreign bodies corporate to carry on a business. According to Article 2 of the Baden executive regulations of the Trade Law of the 21st December, 1871, foreign bodies corporate are placed on one level with nationals of the Reich as far as the carrying on of a business in Baden is concerned, but in the case of nationals of a State which does not accord reciprocity, the right of retaliation may be resorted to.

COPY OF A LETTER FROM G. H. BAXTER, ESQ., INDIA OFFICE, LONDON, TO MR. V. K. A. AYANGAR, C.I.E., No. F.-3670/30, DATED THE 28TH MAY 1930.

In continuation of my letter of 19th May, F.-3456, I enclose two copies of a despatch dated 15th May from the British Embassy in Berlin to the Foreign Office, London, regarding the establishment of branches of foreign banks in Germany.

COPY OF A LETTER FROM THE BRITISH EMBASSY, BERLIN, TO THE RIGHT HON'BLE ARTHUR HENDERSON, M.P., ETC., ETC., No. 386/(236/6/30), DATED THE 15TH MAY 1930.

With further reference to my despatch No. 148 of the 27th February last regarding the establishment of foreign banks in Germany, and subsequent correspondence on this subject, I have the honour to report that at the beginning of April last I noticed an article in the press to the effect that a new law governing deposit business was in preparation. I thereupon caused enquiries to be made at the Ministry for Foreign Affairs as to the accuracy of this statement and I have now been informed that a new Reich law dealing with deposit business is in fact in preparation and that its provisions will in all probability have retrospective effect, so that they will also apply to undertakings which have been established between the expiration of the old law, namely, the 31st December 1929, and the coming into force of the new law.

COPY OF A DEMI-OFFICIAL LETTER FROM C. H. KISCH, ESQ., INDIA OFFICE, LONDON, TO V. K. ARAVAMUDHA AYANGAR, ESQ., C.I.E., SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, No. F.-3919/30, DATED THE 10TH JUNE 1930.

Treatment of non-national banks in certain foreign countries.

With reference to the second paragraph of Baxter's letter of 24th April, No. F.-2870, I now forward a copy of a translation of the Bavarian Ministerial Ordinance dated 11th December 1906, regarding the admission of foreign countries to carry on a trade in that State.

Translation.

Copy

(L. 3752/71/405.)

EXTRACT FROM AMTSBLATT DER KOENIGLICHEN STAATSMINISTERIEN DES AUSSERN UND DES INNERN 1906. V A 7. PAGE 520, No. 26567-II.

The Ministry of State and Ministry for Foreign Affairs.

To the District Administration Authorities :

Attention is drawn to the fact that, according to paragraph 12, section 1, of the Trade Law of the Reich and Article 2, section 3, of the Bavarian law of the 30th January 1868, concerning the exercise of trades (Bavarian Gesetzblatt 1866/69, page 609) foreign companies in Bavaria may only carry on a trade with the permission of the State.

Application for admission to exercise a trade must be submitted to the State Ministry and the Ministry for Foreign Affairs after a request has been received from the Government represented by the Ministry of the Interior.

When handing in the application the companies must nominate an attorney and submit three copies of the articles of association.

FREIHERR VON PODEWILS.

Munich, 11th December 1906.

Regarding admission of foreign companies to carry on a trade in Bavaria.

COPY OF A LETTER FROM C. H. KISCH, ESQ., INDIA OFFICE, LONDON, TO MR. V. K. ARAVAMUDHA AYANGAR, C.I.E., SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, NO. F.-4222/30, DATED JUNE 1930.

Treatment of non-national banks in certain foreign countries.

In continuation of my letter of the 10th June, F.-3919, I enclose copy of a despatch from the British Embassy in Constantinople to the Foreign Office, London, dated the 12th June, regarding the establishment of branches of foreign banks in Turkey.

COPY OF LETTER FROM THE BRITISH EMBASSY, CONSTANTINOPLE, TO THE RIGHT HONOURABLE ARTHUR HENDERSON, M.P., ETC., No. 223 (309/2/30), DATED THE 12TH JUNE 1930.

I have the honour to report, with reference to your despatch No. 329 of the 29th ultimo (L.-3669/71/405), that there exists in Turkey no legislation to prevent the setting-up of branches of non-national banks or the conduct by the branches of such banks of banking business. Branches of foreign banks must, however, comply with the provisions of the companies law of the 30th November 1914, which include registration with the Turkish Government.

2. In practice, as well as in law, some differentiation is made between national and non-national banks. The latter are, for instance, subject to the profits and property tax from which the former are exempt. Further, all

guarantees required by the Turkish Government in respect of tenders for Government contracts must be deposited with national banks as must also be the guarantees required from insurance companies by virtue of the companies law.

COPY OF LETTER FROM THE SECRETARY, FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY, DELHI, NO. 737, DATED THE 7TH JULY 1930.

With reference to your letter No. 316, dated the 10th September 1929, I am directed to forward herewith a Memorandum submitted by the Indian Chamber of Commerce in London for the information of your Committee.

Copy.

Great Britain.

The British Banking directly or indirectly developed and encouraged by the British Government has been instrumental in building up to a considerable extent the present day British Business, Trade and Industries. The Bank of England is considered to be the custodian and guardian of the Nation's credit. In order to extend the necessary help and assistance to the indigenous industries in the present depressed condition the Bank of England has recently formulated two schemes known as (1) Securities Management Trust,(2) United Dominions Trust. The first is established with an expert Board, with a view to formulate schemes for industrial reorganisation. And the other instituted to finance hire-purchase of necessary products. The Government have further showed their readiness to strengthen the Banking resources of the country by appointing a Committee to enquire into the various matters concerned with the same.

In order to increase the foreign trade of the country, the British Government have adopted Export Credit scheme. The first Export Credit scheme which was in force from 1919 to 1921 provided for giving cash advances to traders who were unable to obtain the necessary Banking facilities. The scheme, as expected, resulted in losses, so the second scheme emerged in an improved form. The second scheme, which was in force from 1921 to June 1926, provided for guaranteeing Bills by endorsement. In 1926 a new scheme was formulated with a view to find out whether the credit insurance could be introduced as a permanent feature of the export trade.

Italy.

It is understood that prior to 1926 there were no special legislations regulating Banking activities in Italy. A Royal Decree Law was passed on the 6th November 1926 which invested the Italian Minister of Finance with power to ask branches of foreign banks to make a deposit as a guarantee for the business transacted in the Italian Kingdom and Colonies. The foreign banks under this Decree must obtain licenses to trade. The Decree further provides that "The Authorities will be issued by Decree from the Ministry of the Treasury in agreement with the Ministers of Foreign Affairs and Industry, Commerce and Labour whose decision is final. The concession or refusal of a license will be influenced by the treatment which Italian Credit Institutions enjoy in the country of origin of the applicant. The concession may entail the acceptance of special conditions, disregard of which may cause the concession to be cancelled."

America.

In most of the States in U. S. A., there are special conditions required to be satisfied by foreign banks. A branch of foreign Bank desiring to establish in an American State, must as a rule obtain " a Chamber as local Corporation if it wishes to exercise full Banking powers ". A Foreign Bank must " either obtain license from the Superintendent of Banks or must incorporate local Bank with a Board of Directors, a majority of whom are American citizens. The license which is issued to most of the foreign branches conveys only limited Banking powers and of course does not permit either to issue Notes or to receive deposits ". In view of such strict requirements, it is getting increasingly difficult now-a-days to obtain a local bank Charter.

Canada.

In Canada all possible facilities, Banking, financial, etc., are given for the promotion of Canadian trade and particularly " to assist the Canadian Exporter to procure markets abroad ". It is understood that there are various restrictions in Canada on foreign Banks and as far as the knowledge of the Council goes, there are foreign Banking institutions in Canada.

Australia.

In Australia the entire Banking is practically conducted by the Commonwealth Bank, which for all practical purposes is a Central Bank. It also conducts or rather transacts Savings Bank business. There are other 20 Joint Stock Banks, out of which only 3 are foreign institutions.

Japan.

The way in which Japan has built up her industries and export trade during a very short period, proves beyond doubt the fact that the Government there are all attentive and ready to devise all possible ways and means to render necessary help and assistance in the direction. The Bank of Japan, the Central Bank of the country, the Hypothetic Bank of Japan and the Industrial Bank of Japan and other Joint Stock Banking Corporations like the Yokohama Specie Bank, are great Banking institutions giving every possible financial and credit facilities for the furtherance of Japanese Trade, Commerce and Industry. A new Act was passed on March 29th, 1927, in place of the old one which came into operation on and after June 1st, 1928. The following are some of the important provisions of the same :—

(1) The Minister is empowered to make necessary provisions respecting Banks with head offices outside the area, desirous of doing Banking business within the area when the Act is in force.

(2) The power of the Minister of Finance respecting the cancellation of business licenses and the giving of various sanctions to Banks is greatly increased ; and the penalties for illegal acts by Banks shall be made heavier.

सत्यमेव जयते

APPENDIX III.

PAGE.

Supplementary information furnished by witnesses—

सत्यमेव जयते

No. 1.

Letter from Mr. S. N. Pochkhanawala, Managing Director, the Central Bank of India, Limited, dated Bombay, the 10/11th March 1931.

The cost of running an upcountry branch depends entirely on its magnitude and the volume of business it puts through. A figure, therefore, that would suffice in the case of one branch may prove wholly inadequate in the case of a larger one. Thus, while our Calcutta Branch, which is by far the largest of our upcountry branches, costs us over a lac every half-year, some of our smallest branches cost us not even Rs. 10,000 and still find it difficult to make both ends meet.

No. 2.

Supplementary information furnished by Mr. A. D. Shroff.

Name.	Year ending.	Paid-up Capital.	Secured Loans.	Unsecured Loans.
Ceylon	31-3-1929	12 lacs.	5·25 Liquid	·73
Pearl	31-3-1929	19·97 ,,	..	28·78 lacs.
Premier	31-12-1928	20·00	7·75 ,,	6·15
Ind. Bleaching	31-12-1928	12·00	..	..
Currimbhoy	31-3-1929	22·00	10·61 ,,	2·15
Mathradas	31-3-1929	22·00	13·57 ,,	..
Bradbury	31-3-1929	24·85	..	5·10
Pabaney	31-3-1929	20·00	10·16 ,,	6·25
Kastoorchand	31-3-1929	69·75	19·00 ,,	..
Fazulbhoy	31-3-1929	18·00	2·95	22·58
Crescent	31-3-1929	15·00	..	7·82
Colaba	31-12-1928	28·00	..	12·79
Khatau Makanje	30-6-1928	30·00	..	22·70
Central India	30-6-1929	96·87	39·48 (Sec.)	38·49
Swadeshi	31-12-1928	20·00	..	42·22
Ahmd. Advance	30-6-1929	10·00	..	14·32
Tata Mills	31-12-1928	14·98	6·71	24·27
Bom. Dyeing	31-12-1928	62·74	27·85 (Securities)	11·29
Century	31-12-1928	18·50	..	11·25
Sholapur	31-3-1929	8·00	26·93 (Sec.)	30·53 Banks 103·26 others
Morarji	30-6-1928	11·50	13·70 (Sec.)	11·81 Imp. 42·61
Laxmi	31-12-1928	16·00	12·76	6·77
Vishnu	31-12-1928	24·00	21·97	2·85
Mysore	28-2-1929	12·44	10·67 Liquid	39·86
Ind. Cotton	30-9-1928	6·25	18·00 Liquid and Scorts.	13·56
Total	..	..	247·36	608·14

Banks.	Paid-up Capital.	Reserve.	Net Profit.	Percentage of net profit to Capital.	Percentage of net Profit to Capital and Reserve.
	Rs.	Rs.	Rs.		
Imperial (30th June 1930).	5,62,50,000	5,37,50,000	1,06,57,000	19·00	9·7
Central (31st December 1929).	1,68,13,200	93,00,000	13,48,460	8·00	5·2
Baroda (31st December 1929).	30,00,000	23,50,000	3,94,698	13·1	7·4
Punjab National (31st December 1929).	31,24,503	17,00,000	2,97,407	9.5	6·2
Union (31st March 1930).	39,95,000	7,70,000	2,34,712	5·85	4·9
India (31st December 1929).	1,00,00,000	86,00,000	18,72,322	18·7	10
Allahabad (31st March 1930).	35,50,000	44,50,000	6,00,929	16·95	7·5

For year ending 31st December 1928.

Bank.	Paid-up Capital.	Reserve.	Net profit.	Percentage of net profit to Capital.	Percentage of net profit to Capital and Reserve.
	£	£	£		
Chartered . .	3,000,000	4,000,000	661,598	22	9·5
Eastern . . .	1,000,000	450,000	123,520	12·3	8·5
Mercantile . .	1,050,000	1,480,000	257,458	25	10
National . . .	2,000,000	3,000,000	511,132	25	10
P. and O . .	2,594,160	180,000	106,917	4·1	3·9
(Ending 31st March 1929).					

No. 3.

Letter from the Bombay Shareholders' Association, to the Secretary, Indian Central Banking Inquiry Committee, dated the 5th November 1930.

With reference to the previous correspondence, I beg to send you the following:—

(*a*) Extracts from the judgment of the Privy Council in the appeal of P. D. Shamdasani and others against the Tata Industrial Bank reported in 30 Bombay Law Reporter page 1115 at p. 1126.

(*b*) *Pro forma* form of balance sheet of banking companies (as corrected by the letter dated 6th November 1930).

(*a*) Extracts from the Judgment of the Privy Council in the appeal of P. D. Shamdasani and other against the Tata Industrial Bank.

* * * * *

Per Lord Blanesburgh.

"There is, however, an objection to the appointment of the liquidators more serious than that taken by the appellant. The resolution appointing them has already been set forth and it is, as will be seen, a resolution under which in terms they became merely ministerial officers required to have regard in the supervision of the directors of the two companies in discharging their duties. And in the present case two of the liquidators so appointed were removed from office by the Court (48 Bom. 471, 485) for the reason that against the will of their co-liquidators and the Directors they desired to inspect the books and inquire into the transactions of the bank. Their Lordships think it right to say that a form of appointment which was relied upon even as partly instruction such a result is much to be deprecated. They hope that it has not been generally followed in India; and they think that the form should never again be used.

So great was the importance at one time attached in England to the consideration that arrangements of a company's affairs should not when made effective preclude all proper inquiry into the past that the Court, in cases where its sanction to the arrangement was necessary, used to insist, as a condition of its sanction on the insertion in the scheme of provisions for meeting the expense of any such inquiry. That practice no longer obtains and where, as in a scheme like the present, the amalgamation becomes effective without judicial sanction, no opportunity of imposing any such condition is given to the court. But the counterpart of that old practice, as applied to amalgamations like this is, that the court, when as in this case, it has the opportunity of doing so, will always cause it to be clearly understood that a liquidator in a voluntary liquidation, which is an essential condition of such an amalgamation, must not by the resolution appointing him be restricted in the exercise of his statutory duties. The resolution of appointment in the present case was highly objectionable."

(b) LIMITED, BALANCE SHEET

AS AT 19

Capital and Liabilities

Capital—

Authorised capital shares of rupees each.

Issued capital shares of rupees each.

Subscribed capital shares of rupees each.

Amount called up at rupees per share less calls unpaid.

Add forfeited shares (amount paid up on ——— shares now forfeited).

(*Note*—Where shares are divided into different classes particulars in detail of each class should be given. If on some of the shares part of the amount is called up, and others are issued as fully paid up to promoters or others for consideration other than cash, the items must be classified and the fully paid up shares shown separately: Partly paid shares issued to promoters or others for consideration other than cash should also be shown separately.)

Reserve Fund—

Balance as per last balance sheet . . . . .

Add amount transferred this year from profit and loss account or from any other account giving details. Deduct amount transferred this year to profit and loss account or any other account giving details.

Sinking Fund—

(*Note*.—Balance as per last balance sheet and additions or deductions during the year should be shown separately.)

Contingency Fund—

(*Note*.—Balance as per last balance sheet and additions or deductions during the year should be shown separately.)

Insurance Fund—

(*Note*.—Balance as per last balance sheet and additions or deductions during the year should be shown separately.)

Investment Depreciation Reserve—

(*Note*.—Balance as per last balance sheet and additions or deductions during the year should be shown separately.)

Bank's business premises depreciation Reserve—

(*Note*.—Balance as per last balance sheet and additions or deductions during the year should be shown separately.)

Other landed properties Depreciation Reserve—

(*Note*.—Balance as per last balance sheet and additions or deductions during the year should be shown separately.

Provident Fund—

(*Note*.—Balance as per last balance sheet and additions or deductions during the year should be shown separately; again if any portion of the provident fund is invested in securities, the nature of the security and the mode of valuation should be clearly specified.)

Pension Fund—

(*Note*.—Balance as per last balance sheet and additions or deductions during the year should be shown separately.)

Provision for bad and doubtful debts—

(*Note*.—Balance as per last balance sheet and additions or deductions during the year should be shown separately.)

Any other fund created or amounts set aside out of profit—

(*Note*.—Balance as per last balance sheet and additions or deductions during the year should be shown separately.)

Fixed Deposits—

Current Account Deposits—

(*Note*.—Amounts borrowed as fixed deposits, current account deposits, call or short notice deposits or otherwise from a bank of which this bank is the manager or *vice versa* should be separately disclosed as the case may be.)

Savings Bank Deposits—

Loan on mortgage or mortgage debenture Bonds—

Loans otherwise secured.—(Stating the nature of the different kinds of securities pledged.)

Loans unsecured—

Interest—

(*Note*.—Interest accrued on mortgage debenture or other secured loans to be shown separately under each head.)

Debts due to banks agents and correspondents secured by Bills and investment as per contra—

Other debts due by the Bank—

Rebate on Bills discounted not due—

Acceptances for customers as per contra—

Bills payable, such as drafts on Indian and Foreign Bankers—

Bills for collection.—(Bills receivable as per contra).

Unclaimed dividends—

Profit and Loss Account—

Balance as per last balance sheet.

Less appropriation thereof.

Balance brought forward.

Profit since last balance sheet.

Contingent liabilities—

Claims against the bank not acknowledged as debts.

(particulars to be specified.)

Moneys for which the bank is contingently liable.

(particulars regarding the nature of liabilities to be specified.)

Arrears of cumulative preference dividend.

Property and Assets.

Cash—

Cash in hand.

Cash in current account distinguishing between that with joint stock banks and that with others.

(*Note.*—Amounts in current account with a bank of which this bank is the manager or *vice versa* should be separately disclosed as the case may be.)

Bullion on hand.—(at cost or market value whichever is lower specifying particulars as to the nature of the metal.)

Money at call and short notice—

Fixed Deposits—

(*Note.*—Call and short notice or fixed deposits with a bank of which this bank is the manager or *vice versa* should be separately disclosed as the case may be.)

Investments—

1. Government loans bonds and other giltedged securities valued at cost or market price whichever is lower.

2. Sterling loans. Bonds and other giltedged securities valued at cost or market price whichever is lower specifying the rate of exchange adopted in calculation.

3. Loans bonds and other securities of municipalities, improvement and Port Trusts and other public bodies in India valued at cost or market price whichever is lower.

4. Sterling loans bonds and other securities of municipalities, Port Trust and other public bodies valued at cost or market price whichever is lower, specifying the rate of exchange adopted in calculation.

5. Shares or stock of public companies valued at cost or market price whichever is lower specifying names of companies, the class of shares or stock, *e.g.*, ordinary, preferred, etc., etc., and the amounts invested in them.

6. Shares or stock of private companies valued at cost or market price whichever is lower specifying names of companies the class of shares or stock, *e.g.*, ordinary, preferred, etc., etc., and the amounts invested in them respectively.

7. Shares stock and bonds of railway companies dividend or interest on which is guaranteed by Government valued at cost or market price whichever is lower specifying names of companies invested in them respectively.

8. Debentures of joint stock companies or of public bodies valued at cost or market price whichever is lower specifying names of companies and amounts invested in them respectively.

9. Any other investment not covered by the foregoing valued at cost or market price whichever is lower specifying particulars in detail.

10. Immovable property other than bank's own business premises (showing cost and depreciation at the beginning of the year and additions and depreciation provided during the year.)

Interest Dividends, rents or other income accrued on investments—

Cash credit and demand advances—

Loans—

Bills discounted and purchased—

Particulars required by law.

1. Debts considered good and in respect of which the bank is fully secured.

(*a*) Loans against rupee or sterling securities.

(*b*) Loans against rupee or sterling trustee securities and securities of local bodies or authorities.

(*c*) Loans against securities of foreign Government, (stating the name of the Government and the nature of the security.)

(*d*) Loans against debentures of public companies.

(*e*) Loans against shares of public companies.

(*f*) Loans against stock in trade or other movable property specifying the nature of such property.

(*g*) Loans against immovable property (if outside India should be specified.)

The aforesaid debts amounting to rupees include:—

(1) Debts (fully secured) amounting to Rs. due by public limited companies with which one or more Directors of the bank are connected either as managing agents or as managing Directors or are otherwise directly or indirectly interested in the remuneration payable to the managing agents or managing Directors of such companies.

(2) Debts (fully secured) amounting to Rs. due by private limited companies with which one or more Directors of the Bank are connected either as managing agents or members or Directors or managers or are otherwise directly or indirectly interested in the profits or income thereof.

(3) Debts (fully secured) amounting to Rs. due by firms or partnerships in respect of which a Director of the Bank is liable either as partner or guarantor.

(4) Debts (fully secured) amounting to Rs. due by limited companies guaranteed by private limited companies with which one or more Directors of the Bank are connected as managing agents or members or Directors or managers or in whose profits or income they are otherwise directly or indirectly interested.".

(*Note.*—Securities for debts amounting to are in dispute.)

2. Debts considered good secured by the personal liability of one or more parties in addition to the personal security of the debtor. This amount includes:—

(*a*) Debts (considered good) amounting to Rs. due on bills discounted and purchased.

(*b*) Debts (considered good) amounting to Rs. due on joint and several pronotes

(*c*) Debts (considered good) amounting to Rs. due on overdrafts.

(*d*) Debts (considered good) amounting to Rs. due by public limited companies and guaranteed by one or more Directors of the Bank severally or jointly with other persons the said Directors being connected either as managing agents or managing Directors or are otherwise directly or indirectly interested in the rumuneration payble to the managing agents or managing Directors of such companies.

(*e*) Debts (considered good) amounting to Rs. due by private limited companies guaranteed by one or more Directors of the bank severally or jointly with other persons the said Directors being connected either as managing agents or members or Directors or managers or are otherwise directly or indirectly interested in the profits or income thereof.

(*f*) Debts (considered good) amounting to Rs. due by firms or partnerships guaranteed by one or more Directors of the Bank severally or jointly with other persons the said Directors being connected either as partners or guarantors.

(*g*) Debts (considered good) due by individuals guaranteed by one or more Directors of the Bank severally or jointly with other persons.

(*h*) Debts (considered good) amounting to Rs. due by public limited companies guaranteed by private limited companies with which one or more Directors of the Bank are connected as managing agents or members or Directors or Managers or in whose profits or income they are otherwise directly or indirectly interested.

(*Note*.—Debts amounting to Rs. are in dispute.)

3. Debts (considered good) for which the Bank holds no security other than the debtors personal security.

4. Debts due by Directors of the bank personally:—

(*a*) Debts considered good and fully secured.

(*b*) Debts considered good.

(*c*) Debts considered doubtful.

(*d*) Debts considered bad.

(*Note*.—Particulars of amounts repaid during the year should be specified.)

5. Debts due or guaranteed by auditors of the bank or by any persons being a partner in the auditors' firm personally or jointly with other persons either with or without security:—

(*a*) Debts considered good and fully secured.

(*b*) Debts considered good.

(*c*) Debts considered doubtful.

(*d*) Debts considered bad.

(*Note*.—Particulars of amounts repaid during the year should be specified.)

6. Debts due or guaranteed by officers of the bank other than Directors and auditors personally or jointly with other persons either with or without security.

(*a*) Debts considered good and fully secured.

(*b*) Debts considered good.

(*c*) Debts considered doubtful.

(*d*) Debts considered bad.

(*Note*.—Particulars of amounts repaid during the year should be specified.)

7. Debts considered doubtful.

8. Debts considered bad

Fixed Assets—

Banks business premises at cost.

Additions made this year.

Less—amount written off during previous years.

Amount written off during the year.

(*Note.*—If premises are held at different centres each case to be dealt with separately as above.)

Office furniture and fittings.

Balance as per last balance-sheet.

Additions during the year.

Less amount written off previously.

Amount written off during the year.

Customers for acceptances as per contra—

Bills receivable—

Stamps, stationery, etc.—

Goodwill, preliminary expenses, expenses on issue of debentures underwriting Commission, brokerage, etc., to be shown separately so far as not written off, giving particulars in detail as to the original amounts the additions made those written off during previous years and those if any, written off during this year.

Note—

(1) In the opinion of the Committee of the Bombay Shareholders' Association loans to Directors or their firms or companies of which they are managing agents or managing Directors, etc., etc., or to auditors or other officers should be prohibited. These items have however been dealt with in the form of balance sheet in order to show the manner in which such loans should be disclosed in case the Central Banking Committee differs from our view.

(2) In the opinion of the Committee of the Bombay Shareholders' Association, the practice of one bank acting as the managing agent or manager of another bank is undesirable. In view of the fact that this practice exists in Bombay it is necessary that loans of all kinds from the managing bank to the bank managed and *vice versa* should be separately disclosed as suggested in the forms of balance-sheet.

(8) The Committee of the Bombay Shareholders' Association have expressed the views in para. 26 of their Memorandum with regard to investments in shares and debentures of joint stock companies; subject to these views the Committee suggest that particulars in details of investment in shares and debentures of joint stock companies are necessary to enable the shareholders to judge how funds of a banking company are invested in other joint stock companies. For the sake of convenience these particulars instead of being set out in the body of the balance-sheet may be attached to it if so desired.

J. J. KAPADIA,
Honorary Secretary.

The 6th November 1930.

NOTES.

(FURNISHED BY THE BOMBAY SHAREHOLDERS' ASSOCIATION.)

(i)

RE:—*The Karachi Bank Limited (in liquidation)*

Notes.

	Rs.
Registered in 1910	
Authorised Capital	5,00,000
Issued Capital	5,00,000
Subscribed Capital	5,00,000
Paid up Capital	2,50,000 in 5,000 shares of Rs. 50.

Head Office:—Karachi.

Branches:—

Bombay.
Hyderabad (Sind).
Larkhana.

Dividend distributions:—

	Rs.	
For the year 1922	25,000	at 10 per cent
" " " 1923	25,000	" " " "
" " " 1924	25,000	" " " "
" " " 1925	20,000	" 8 per cent.
" " " 1926	20,000	" " " "
" " " 1927		*Nil.*

Payment suspended:—6th March 1929.

Voluntary liquidation resolved upon:—30th March 1929.

Compulsory liquidation ordered:—13th May 1929.

Particulars of Directors at the date of suspension of business, date of appointment and shareholding.

Name.	Date of appointment.	Shareholding.
1. Shewaram Dewaumal	. 8th May 1915, appointed Managing Director 29th November 1919.	100
2. Sohrab K. H. Katrok	. 23rd July 1924 . .	20
3. Lokamal Chellaram	. 20th September 1921 . .	30
4. M. Misquita . .	. 23rd March 1919 . .	30
5. M. C. Castellino .	. 8th May 1915 . .	20
6. Shivrattan Mohatta .	. 17th November 1923 .	20
7. Dr. S. B. Fanseca .	. 30th March 1918 . .	25

Mr. A. R. Vaz, was manager at Karachi since 1912.

The Auditors were:—

(1) Mr. P. F. Menezes appointed in 1911.

(2) Mr. B. B. Master, F.C.R.A., L.A.A., 1915.

Messrs. C. C. Lobo, Dharamdas Thawerdas and Fatechand Asudamal were appointed official liquidators; their investigation report is dated 26th April 1930. Before making their report the Liquidators asked Messrs. Ferguson & Co., to examine the books and their report is attached.

The following passages at page 8 of the liquidators' report briefly summarise the position:—

"From the above, it will be found that the bank was not making any real profits at least in the years 1924, 1925, 1926, and 1927. The profits were shown by crediting unrealized and unrealisable interest to profit Account, by appreciating the value of immovable properties, and transferring appreciation in Government securities to profit account and under-estimating bad or doubtful debts and showing bad debts as good debts. Sufficient provision was not made for bad or doubtful debts. Bad debts were not wiped off in reasonable time but were shown as bad or doubtful assets. The Articles provide for bad or doubtful debts account but this had not been maintained except in respect of small amounts disallowed by courts or in arbitration proceedings. Sufficient provision was not made even in Interest Adjustment Account for bad or doubtful interest. Upto 1925 the land and buildings were shown at cost price in the books though in the balance-sheets they were described at book value or at market value. In 1926, they were shown at book value though it was not the cost price; in 1927 they were shown at market value after appreciating some and depreciating others. These properties had never been sold and profits thereon realised."

"Such properties should have been shown in balance-sheets at cost or market price whichever was the lower of the two. Classification of values of properties as Book value is not provided for by the Indian Companies Act Form F. Different standards of book value are shown in the Balance-sheets in respect of land and buildings and furniture and fittings. In case of the latter, value is shown less depreciation written off every year. No such depreciation is shown under land and buildings. The unrealised interest should not have been carried to profit, in any case in 1926 and 1927 as it was not expected to be realised. This was done in spite of the protests of the Auditors and the Manager."

"The appreciation in Government securities should not have been carried to profit and divided as they were not sold. This should have been kept in reserve to meet depreciation as they were subject to fluctuations. The Official Liquidators have lost a great deal on sale of these securities. Before 1924, though there was appreciation it was never carried to profit. The securities were shown at cost."

The liquidators have held that fraud was committed by the Directors, the Manager and the Auditors in relation to the conduct and management of the bank and asked for their public examination under section 196 (page 14 of the report).

Accordingly the Judicial Commissioner, Sind, held the examinations.

1. *The Directors were guilty of negligence in that—*

(a) They invested large amounts in immovable properties and lent on mortgages of immovable properties without proper safeguards in a falling and depreciated land market. (Page 2).

(b) They made advances and loans and gave over-drafts to parties without taking the ordinary precaution. Large amounts were advanced on insufficient securities and valuations and the prices prevailing during the boom period. No independent inquiries were made about the market value of the securities offered or the position of the debtors or their sureties. The applicants and their sureties were never required to give a statement in writing about their position and properties. No valuer or actuary was employed, no confidential reports about the means, standing and credit of the applicants and sureties were invited. (Page 2).

(c) They advanced or renewed loans on security of immovable properties on the basis of the values of the boom period. No sufficient margin was kept. All this was done inspite of the fact that the directors knew that land values were declining. The auditors knew this and they drew the Directors attention to it. (Page 2).

(d) They failed to collect outstandings when there was a run consequent upon the failures of several firms in June and August 1927. Instead they resolved to obtain a loan from the Imperial Bank.

(e) They failed to take substantial securities from the employees and acted contrary to the Boards' resolution of 9th September 1920 and 4th August 1922. (Page 3).

(f) They failed to write-off certain debts as recommended by the sub-committee appointed in 1923. (Page 3.)

(g) They allowed debts to be time barred (see page 8 of the report).

(h) They advanced on the security of immovable properties when the mortgages had no title. (Pages 9 and 10 of the report.)

(i) They failed to take timely legal proceedings to recover certain debts with the result that third parties came in to the bank's prejudice. (Page 11).

(j) They failed to put in the bank's claims against the estate of insolvent debtors. (Page 12).

(k) They did not exercise the bank's lien on the shares of its debtors. (Page 12).

2. Liquidators' report refers to the following mal-practices:—

(A) *Interest was debited to dormant accounts and credited to profit account; in many cases it went to swell profits and was used in paying dividend.*

The balance-sheets of 1924, 1925, 1926 and 1927 are discussed and it is found that the following amounts were debited as interest during the said years:—

	Rs.	As.	P.		
	60,343	12	3	in 1924	(pages 4 and 21).
	50,030	6	5	in 1925	(pages 5 and 21).
	32,944	6	7	in 1926	(pages 6 and 21).
	41,543	3	8	in 1927	(pages 7 and 21).
Total .	1,84,861	12	11		

In their letter to the liquidators dated 31st July 1929, Messrs. A. F. Ferguson and Co., observe as follows: (Page 19).

"During the four years ended 31st December 1927 interest amounting to approximately Rs. 1,80,000 has been debited to these doubtful accounts."

"It appears that the balance-sheet for 1927 showed a profit of Rs. 15,608-14-9 but this profit was arrived at after crediting Rs. 41,543-3-8 being interest on bad and doubtful debts. Commenting on this Messrs. Ferguson and Co. observe "This of course is entirely wrong since if the principal is irrecoverable the interest is equally so, and as such cannot be reckoned as income". (Page 18).

The auditors had also warned the directors against this practice as will be seen from the following extracts in their letters, but strangely enough they gave clean certificates and did not even draw the shareholders' attention:

"It is in the interest of Directors, too, not to allow this item (*i.e.*, accrued interest) to be shown, specially in those cases where the present value of the securities held against same is not sufficient to cover both principal and interest". (See page 4).

"In my opinion it is but right that you please do not show as profit, interest due in the case of those persons whose securities will never in the present circumstances enable to obtain more than the amount advanced to them". (Page 4).

(B) *The value of Government Securities was appreciated and such appreciation was transferred to profit account.*

(I) In 1924 the Government securities were appreciated by Rs. 38,041-12-0 which was carried to profit. (Page 4).

(II) In 1925 Government paper was again appreciated by Rs. 87,960 out of which Rs. 19,960 was taken to profit.

Referring to this appreciation Messrs. Furguson and Co. observe (see page 19) "We enclose a statement (B) showing the various adjustments made to the different Profit and Loss account for the 5 years ended 31st December 1928 from which it will be apparent that no real trading profit was ever made during the years 1924, 1925, 1926 and apart altogether from the question of providing for bad and doubtful debts, it was only by taking in the appreciation of Government securities that the bank was able to show a profit in these years".

(C) *The value of immovable properties was appreciated, manipulated and taken to profit.*

It appears from page six of the report that the property of Mr. D'sa a debtor of the bank who was related to two of the Directors were bought by the bank at open auction for Rs. 50,750 in 1926. This was appreciated to Rs. 80,000.

The liquidators observe "the properties of the bank were shown at the book value of Rs. 2,21,134-5-10. Only one property was appreciated, all the others were shown at their cost price. There was really no profit at all this year (1926). If only the appreciation of Government paper amounting to Rs. 87,960 and the difference of Rs. 29,250 on the property of Mr. D'sa had not been taken to profit the result would have been a considerable loss". The liquidators further observe that the director made a gift of Rs. 29,250 to Mr. D'sa. (Page 6).

They further observe that it was strange that when the land market was low, the Directors should have written up the property and in this connection refer to the manager's admission that as a banker he thought that the property should not have been appreciated. (See page 6).

The liquidators further observe that "the value of the bank's properties in this (1926) year's balance-sheet is shown as "book value" This appreciation of Mr. D'sa's property could thus not be known to the outside world"

For the purpose of the balance-sheet for 1927 they were shown at market value Rs. 8 04 000. The properties were revalued and were appreciated and depreciated. The nett appreciation of Rs. 2,780-12-0 was then credited to the profit and loss account It is to be noted that Mr D'sa's property which was appreciated for the purpose of the 1926 balance-

sheet was revalued in 1927 and brought down to Rs. 70,000 (see pages 18, 23, and 7).

(D) *Bad debts were underestimated and shown as good debts.*

At page 4 the liquidators observe:—

In this year (1924) credit has been taken for Rs. 60,343-12-3 as accrued interest on dormant accounts, though it had not been paid and though interest on the same accounts for 1922 and 1923 amounting to about Rs. 1,10,000 had also not been paid; but out of this a sum of Rs. 40,678-12-1 was carried to interest adjustment account bearing that account to Rs. 50,000 as a provision for bad and doubtful interest in suspense, though the bad and doubtful debts including interest for the last 3 years were estimated at Rs. 26,231-11-6 still a provision of Rs, 50,000 was made for interest alone. This would indicate that the bad or doubtful debts were very much underestimated (several bad debts were shown as good) in the report of the sub-committee made in 1923 the amount of Rs. 23,987-11-0 due by Haji Dossal and Ishverdas was considered doubtful still it was not shown as such in the balance sheets * * *".

Messrs. Ferguson and Co. estimated that in 1924 the bad and doubtful debts amounted to Rs. 3,62,000 (see page 16). They further pointed out that the total reserves in 1924 were Rs. 2,37,978-2-10; they observe that the bank was insolvent in 1924 (see page 16 and see also statement 6 annexed to the report).

Discussing the balance sheet for 1927 the liquidators observe at page 7:—

"It would appear that the bad or doubtful debts were underestimated at Rs. 2,92,382-5-0 as within about eight months thereafter they have been estimated at Rs. 5,09,917-10-0 in a tentative balance sheet prepared for the Directors by the Manager. In case of most of the debtors, only small portions of the debts have been assessed as bad or doubtful. The total amount due by these directors on 31st December 1927 as shown in statement A of Messrs. Ferguson and Co., is Rs. 7,06,962-5-0 out of which only Rs. 2,92,382-5-0 has been assessed as bad or doubtful, the rest is shown as good. Though these are called bad or doubtful and shown as assets they should in our opinion have been wiped off entirely."

In connection with this point, the cases of various constituents set out at pages 9, 10 and 11 of the report will be found instructive.

It may also be observed that the extract from the auditors letters to which references have already been made would seem to indicate that debts were shown as good or secured whereas, they were not; at page 4 of the report it is stated, "that of Rs. 26,231-11-6 as bad or doubtful. They pointed out several debts auditors objected to the classification of which no recoveries had been made and that the value of the securities was not sufficient to pay the principal and interest".

(E) *The debts due by the Managing Director and another Director were not separately shown:—*

(i) It appears that the Managing Director was jointly liable in 1924 in respect of the following loans. (See page 5).

	Rs.	AS.	P.
1. Sind furniture mart	15,261	10	7
2. Harchandrai Tahilram . . .	59,863	14	5
3. Reliance Motor Car Co. . . .	3,603	6	2

(ii) In the balance sheet for 1925 the Managing Director's liability in respect of the following loans was not separately shown. (Page 5).

	Rs.	AS.	P.
1. Sind Furniture mart . . .	18,278	3	11
2. Reliance Motor Co. . . .	4,196	6	0

(iii) In the balance sheet for 1926 the following debts due by the directors jointly with others were not shown as such:—(Page 6).

	Rs.	AS.	P.
1. Sind Furniture mart . . .	30,779	2	1
2. Harchandrai Tahilram . . .	18,600	0	8
3. Reliance Motor Car Co. . . .	4,860	9	5

It appears that on 15th June 1928 a director wrote that all debts due by Directors should be realised immediately. But no action was taken. The debts due by Mr. Lokamal and R. B. Shewaram were not realised.

On the contrary a fresh advance was given to the Sind Furniture Mart, in which the Managing Director was a partner or interested with his brothers. (Page 3).

(F) *The Directors did not close the bank although they knew it was in a hopeless state as shown by the report of Mr. Jamshed N. R. Mehta.*

It appears that in September 1927, the Directors appointed Mr. Jamshed N. R. Mehta to value the assets and report on the position and affairs of the bank. This was done with a view to obtaining a loan from the Imperial Bank. On 15th October 1927, Mr. Jamshed made his report in which he estimated the total loss of Rs. 2,72,000 out of the capital after wiping off all reserve fund and interest adjustment account. The Managing Director and Mr. Vaz the Manager have admitted in their evidence that if the figures of Mr. Jamshed were accepted the bank would not be considered solvent. The Manager further stated that he agreed with Mr. Jamshed's figure. (Page 2).

Mr. Jamshed's report was not placed before the shareholders; instead of closing the bank, the directors disagreed with Mr. Jamshed's figures (page 8) and later borrowed loans on the security of the banks assets.

(G) *The balance sheets were erroneous and misleading, profits were shown when there were losses.* (See page 8 and Ferguson's report).

(H) *The statement in Form G exhibited in the bank's premises was* false and misleading. (Page 12).

(ii)

Re.—*The Indian Specie Bank. Liquidator's Report.*

Note.

Registered	7th November 1906.
Authorised capital.	Two crores,
Subscribed capital	1½ crores.
Paid up Capital.	75 lacs.

Shares were of 100 rupees each and Rs 50 were paid.

Mr. Chunilal D. Saraiya was the Managing Director; he died under dramatic circumstances on 28th November 1923. Sir Vithaldas D. Thackersay was the Chairman. Mr. J. Sanders Slater was appointed official liquidator; he was assisted by Mr. Bhaisankar Nanabhai, Solicitor.

The liquidators' report shows that the liabilities exceeded the assets by no less than Rs. 79,45,665-15-0 (para. 1).

In para. 2 of their report the liquidator ascribes the ruin of the bank to wild gambling, unchecked and uncontrolled and sustained by deception and fraud.

In para. 6 the liquidator states that for the first two years the bank worked on sound lines but thereafter with the increase in its business and credit, the management grew slack and the Managing Director was practically left without any check or control.

In para. 7 the immediate cause of the bank's failure is stated to be stoppage of the Peoples' and Credit banks.

In para. 8 the proximate cause of the ruin is stated to be frenzied speculation and imprudent and reckless loans. It is stated that by the end of 1911 the whole of the bank's capital and the whole of its so called reserve fund were swept away. It is further stated that although in the years 1909, 1910 and 1911 there were heavy silver losses the directors placed before the shareholders rosy accounts of the bank's working.

In para. 9 the principal items of the bank's losses are summarised: they are—

	Rs.	AS.	P.
1. Silver speculation	1,11,41,894	10	6
2. Advance on pearls	36,43,195	2	0
3. Shares and Budli operations	14,31,666	4	0
4. Imprudent loans	5,48,237	0	0

In para. 10 silver transactions are discussed at length and the methods of keeping accounts and reversing entries are also discussed. The following passage may be noted:—

"In order to hoodwink the auditors and to conceal the real state of affairs the plea was adopted of debiting certain sums to different persons and crediting the same to silver budli account; and of reversing the entries as soon as it was possible to do so."

In para. 12 the advances on the pearls are discussed. It is pointed out that the bank advanced 64 lacs on the security of pearls which at

the best of times could not have been worth more than 30 lacs and which were not expected to realise more than 28 lacs.

In para. 13, the share budli operations are discussed.

In para. 14, six instances of reckless losses in addition to loans on pearls are given.

In para. 15 it is also pointed out that the bank speculated in its own shares and sustained loss of Rs. 1,80,000.

Paras. 16, 17, and 18 again refer to silver losses and the Chairman's utterances at the Annual General Meetings giving glowing accounts of the bank's business. The following statement in para. 18 is rather remarkable:—

> "Not only was the fact of this enormous loss studiously concealed from the shareholders and the public, but the amount was shown as part of secured loan". This statement is repeated at the end of paragraph 25 as follows. "Nay more, the losses in silver were deliberately represented as "secured loans".

In para. 26 the liquidator discussing the Directors' liability observes * * * The bank's huge operations in silver whether on its own account or on joint account with outside speculators were studiously and consistently concealed from the shareholders and the public, that gigantic losses incurred in these operation were not only concealed but the *moneys involved were represented as part of secured loan*, and that these things were done all the time that the Directors were examining the bank's books and certifying to the correctness of the accounts and assuring the shareholders of the bank's funds being legitimately employed in safe investments"

(iii)

Re.—*The Bank of Burma Limited.*

Note.

This note is prepared from the liquidators' report.

1. The bank suspended business on 14 November 1911.

2. It was incorporated on 16 November 1904; the nominal capital was Rs. 10 lakhs divided into ten thousand shares of Rs. 100 each; the capital was subsequently increased; at the date of suspension of business the paid up capital was Rs. 17,62,500 (page 1 of the report).

3. The first directors were Mr. S. A. Mower and Mr. G. S. Clifford partners in the firm of Messrs. Mower and Co. They continued to hold their office to the date of liquidation (page 1 of the report).

4. The liquidators have found that the Directors' reports accompanying the balance sheets were misleading and untrue. They have examined in detail the Directors reports from 1907 to 1911 to substantiate their finding. With regard to the Report and balance sheet at 31st December 1909, the

liquidators observe that "no mention has been made of the security for advances which amounted to Rs. 91,94,149". (page 8).

With regard to the balance sheet at 30th June 1911 the liquidators have referred to a letter written by the auditors to the Directors dated 1st August 1911 expressing the opinion that some of the securities against loans were not easily realisable and advising them that the interest on most of the unsecured loans should be credited to the interest suspense account or not at all. Some provision was made for contingencies as suggested by the auditors but the same the liquidators aver, was inadequate. (Page 8).

In respect of this balance sheet, the following passages at page 5 of the report will be found illuminating:—

"The Bank's Profit and Loss Account and Balance sheet at the 30th June last were, as already stated, in our opinion incorrect and the Board knew or ought to have known that they did not disclose the true position. How could the Rs. 6,36,280-6-7 which represents a shortage in the value of securities, be included in the balance sheet as "*debts considered good for which the Bank holds no formal security, being temporary overdrafts*"? In many instances it was obvious that this shortage was, unless the markets recovered, absolutely bad. It was not an asset of the bank, and provision should have been made for the shortage out of revenue. No reference was made to this in the report. The only reference to investments is the statement.

"The Bank's investments in the 3½ per cent. Government paper have been increased by Rs. 50,000 to Rs. 15,68,000.

The dividend paid was unquestionably paid out of the capital and not out of the profits, and when we say capital we mean out of the depositors' money. The profit and loss account on 31st December 1910 stated what the income was after 'providing for contingencies'. These last three words were left out in the profit and loss account at 30th June 1911. A certain inadequate sum was provided for contingencies, but was not disclosed in the accounts. It would not surprise us if the examination of the value of securities for some years previous to 30th June last were to disclose that insufficient provision was made for the depreciation of securities. The reply might be that there were no market quotations, and that, in the management's opinion, the securities were worth the amounts advanced upon them. We can only say that in our experience no bank, wishing to carry on a sound business, would advance money on such securities as was the custom of the bank of Burma. The attitude adopted at 30th June is clearly indicated, namely that all concerned in the Bank gambled on a rise in the market. It was recognised that the position was critical but as it was obvious that if the accounts even hinted at any insecurity a run was inevitable it was thought better to state everything on this one chance.

Upon reference to the report of the examination of the Directors by the Liquidators it will be seen that in their answer to the question about the securities lodged it was stated that the securities such as the Irrawaddy Petroleum Syndicate and the Moolla Oil Company were collateral securities. For the purpose of the Balance sheet however, these securities were valued at par and this was the method adopted to conceal the fact *that the securities previously lodged had depreciated so much*. What would have been the effect of stating in the balance sheet the true state

of the case namely that shares in companies of this nature had been deposited to make up the shrinkage in the shares already deposited? Or to put the matter in another way let us suppose that no actual companies had been formed but merely private Syndicates owning Mining rights and concessions, would the Directors have been justified in valuing these properties at a sufficient sum to cover the unsecured portions of the largest loans? It seems that simply because a share certificate of a certain face value was issued, it was therefore correct to say that the Bank had security to that extent. We have been unable to discover that these shares were ever dealt in at all.

At page 7 the Liquidators observe—

"It will be seen from examination of Appendix B that the securities deposited were very largely *in shares of companies promoted by Mower and Company of which they were managing agents.* Only one or two of these Companies had ever paid a dividend, and a number are only under construction. The largest item appearing in Appendix B is the amount advanced to Mower and Company, Rs. 45,58,814. Of this sum Rs. 12,44,382-13-11 is stated to be "G. M. Account" (General Manager's Account) or overdraft account. This account was in credit at 30th June 1910. After that date it always showed a large debit balance. In the accounts of 30th June 1911, interest on Mower and Company's loan account was credited to revenue account and charged to Mower and Company's "Overdraft" accounts, and for a great part of the debit no cash passed".

The Liquidators further observe at page 7—

"Amongst the overdrafts appears a sum of Rs. 6,00,000 entered as follows, "Mower, Limited and Rangoon Docking and Engineering Company, Limited". It is hard to say to whom this money was really advanced as the security, for this advance is a promissory-note signed by *Mower Limited*, as principals and as agents for the Rangoon Docking Company".

5. The bank was practically used for the benefit of Messrs. Mower and Co., on this point the liquidators criticism is worth perusal (p. 8):—

"As regards the late management of the Bank, we are of opinion, that the Directors and the manager were guilty of reckless and gross mis-management of the funds of the Bank. *The bank was used practically entirely for the purpose of the two directors, Messrs. Mower and Clifford in the financing of their schemes. It was so easy for them to get money from the bank, that the bank funds might almost as well have lain in the office safe of Mower and Company.* There were three firms, all apparently dependent or concerned with each other, namely, Mower and Company, Mower Limited, (gone into liquidation since the bank's suspension) and Marshall, Cotterell and Company, Limited. When Mower and Company wanted money, they would put in as security a scrip of any

company they had handy, without regard to whether it was or was not quoted on the market, or what the concern was. It might be shares of Mower Ltd., or Marshall Cotterell Limited, or unquoted shares of the Indian Petroleum company limited, or Moolla Oils. When Mower Limited, wanted money, they would put a letter of lien holding all assets for the bank. What these assets were, or their value from time to time, there is little in the records to show".

6. Particulars of the Liquidators' examination of the Auditors and Directors are annexed to this note and marked A. & B. respectively; these will throw a flood of light on the management of the bank's affairs.

A.—EXAMINATION OF AUDITORS.

The Liquidators had a meeting with the Auditors on 11th January.

Asked if they were satisfied with the correctness of the balance sheet at 30th June 1911. Replied that at the time they signed the accounts, they were.

Asked to explain why they had not mentioned the fact of the shortages in value of the securities in their report of which they were aware. Replied that in their opinion at the time any shortage was only temporary and that they thought the value of the securities would soon recover, but mentioned to the Board verbally that in their opinion it would be better not to declare a dividend.

Asked whether they were aware of the report of the proceedings of the 5th Ordinary General meeting held on 24th February 1909 wherein the Chairman stated the following:—

"The other side of the balance sheet deals with the investments of the bank and I have nothing to state beyond the fact that all the securities held by the Bank have undergone a most searching examination by our Auditors."

Replied that they were not aware of this report and that they never made any but an ordinary examination of the securities.

Asked if they felt quite easy as to the security held for the loan to Messrs. Mower and Company, seeing that the total advances to them amounted on 30th June 1911 to Rs. 42,78,482. Replied that they felt that an advance of such magnitude to any one firm was too great but they thought it was fully secured.

They produced to us a letter dated 30th July 1911, addressed by Mr. G. S. Clifford to Mr. Strachan. This letter stated that Mr. Clifford estimated Mr. Mower's private estate as being worth 65—70 lakhs of rupees.

Asked if a searching examination of the securities had been made previously to 30th June 1911, say at 31st December 1910, did they think a shortage would then have been found. Replied that they could not say.

Asked if they considered the Contingency Account a sufficient reserve in view of the very speculative nature of the investments.

Replied—Yes.

Stated generally, that they were to a certain extent influenced by the direct statements made to them by the Directors and the Manager as to the prospect of concerns on which money had been advanced and also from reports they received from time to time from various sources and from their own belief in the success and ultimate prosperity of the investments.

B.—EXAMINATION OF DIRECTORS.

At the request of the Liquidators, the Directors Messrs. S. A. Mower, G. S. Clifford and W. P. Okeden, attended at the Bank on Saturday, the 18th January. The liquidators explained that they had concluded their preliminary examination into the affairs of the Bank and that they desired explanation from the directors on the following points:—

All the replies were made by Mr. Clifford, on behalf of the Board.

Asked "As directors of the Bank do you consider that you were justified in advancing the Bank's money on shares of companies which had never paid dividends or Companies under construction, or for which concessions had been granted. This in view of the statements made at various general meetings as to not locking of Capital, making reserves, etc.".

Reply—Yes.

Mr. Clifford stated that at the time these advances were made the shares of many of these companies were in a liquid state and were easily realisable, and that they individually and as a Board believed in the ultimate success of the various investments.

Asked if they considered that the Bank was justified in advancing to Messrs. Mower & Company alone Rs. 45,00,000 on the securities of shares which were mostly unrealisable or of a very speculative nature.

Reply—Yes.

Their reply was practically the same as was given to the previous question, that they were optimistic and thoroughly believed in the stability of Messrs. Mower and Company, and the ultimate value of securities.

Asked if they considered that the published balance sheets showed the true position of the bank, *e.g.*, the balance sheet of 30th June 1911, and that they were right in declaring a dividend.

Reply—Yes.

Asked if they were aware that that balance sheet was incorrect and that the item of Rs. 6,36,280-6-7 shown in balance sheet as—

"Debts considered good for which the bank holds no formal security being temporary overdrafts", was not what it appeared to be but was in reality a shortage in value of securities.

Reply—They were not aware of it and that they relied on the certificate of the auditors.

Asked if they considered it right for a Bank to advance money practically entirely on shares of concerns of which two out of the three Directors of the Bank were Managing Agents.

Reply—Yes.

Asked "you were aware on 30th June 1911 that the bank was not solvent, or if you were unaware of it you were aware of it on 2nd September last when Mr. Strachan's Circular went round, *why did you continue to receive deposits?*".

Reply—They continued receiving deposits as they hoped and believed that things would get all right.

Asked "You advanced money to Messrs. Mower and Company on the security of the Irrawaddy Petroleum Syndicate 61,250 Vendors' shares equalling Rs. 6,12,500. Apparently the only assets of the company are a mining lease and a prospecting license. Do you consider that this was a proper investment for a Bank to make?

Reply—This was collateral security.

Asked why if, as reported, Messrs. Mower and Company were so wealthy why did they not put in something more tangible such as Government paper.

Mr. Clifford said every available security they could give was lodged with Bank.

Note.—It should be mentioned here that the records do not show the dates on which the securities were deposited.

Asked if you advanced money to Messrs. Mower and Company on security of Moolla Oil Company's 70,875 shares equalling Rs. 7,88,750. What is the capital of the Moolla Oil Company? How much has been subscribed in cash? What is the expenditure to date by the Company on the works".

This answer was the same as that given with regard to Irrawaddy Petroleum Syndicate. The shares were vendors' shares and very little money had ever been expended on the property.

Mr. Mower and Mr. Clifford were then asked by the Liquidators whether the whole property they are possessed of is referred to in certain letters they have addressed to the liquidators, as regards Messrs. Mower and Company and their private accounts.

Reply—Yes.

(iv)

Re.—*The Alliance Bank of Simla Ltd.*

The Reports of the liquidators and creditors' investigation committee bear testimony to the various acts of fraud, irregularities, malpractices, manipulations and juggleries in the conduct and management of the affairs of the Alliance Bank. The attached note prepared from these reports will show some of them as follows:—

1. Crores of rupees were advanced to the Boulton group of companies against securities which were for the most part worthless; these loans were shown in the balance sheets as good debts. (para. 10 of the note).

2. Loans running into lacs were made from time to time to the firm of Boulton Bros.; the members of the firm who were directors of the bank were liable for these loans. In spite of this, their liability as directors was not disclosed in the balance sheets as required by law. (*Vide* paras. 11 and 12 of the note).

3. The good will of the firm of Boulton Bros. was purchased for 20 lacs in or about February 1921. This was not disclosed in the balance sheet for the year 1920-21. It was included under the head "loans, cash, credits and demand advances". (See para. 24 (6) of the note).

4. The good will had no value; still Mr. Macfadyan who presided at the Annual General Meeting held on the 30th August 1921 congratulated the bank for its prosperous conditions and for acquiring "Boultons Business" on advantageous terms. The Directors' report for the year ending 30th June 1922 falsifies these statements. (*Vide* para. 24 of the note).

5. In the balance sheet for 1921-22 the good-will of Boulton's business was shown at 20 lacs while it had no value. (*Vide* para. 24 and 25 of the note).

6. The indebtedness of Mr. Moncrieff a Director of the Bank for £79,850 was not separately shown in the balance sheets. (*Vide* para. 22 of the note).

7. The indebtedness of Mr. W. J. Lister the Chief Accountant and Assistant Manager to the extent of Rs. 4,50,000 was not separately shown in the balance sheets (para. 21 of the note).

8. From time to time the bank purchased shares of various companies of the Boulton Group. These investments ran into lacs. They were not separately shown in the balance sheets but were included under "Government paper, Debentures and other Stocks" (*Vide* para. 24 (7) of the note).

9. The Directors speculated in 'Roubles' which was inconsistent with legitimate banking business and suffered heavy losses (*vide* para. 15 of the note).

10. The increase of the capital in 1917 was achieved by means of questionable methods; numerous manipulations were resorted to in order to show that the bank had made real profit by way of premium in respect of the issue of fresh capital. The transactions however were fictitious (para. 13 of the note).

11. In 1917 the Directors sold the shares of the Delhi and London Bank to the Banyan Trust and advanced a loan to the Trust to pay for the shares sold. The Banyan Trust was not in a position to pay back the loan, still the alleged profit of Rs. 6 lacs made on the sale of the shares was utilized and profits artificially inflated. (Para. 14 of the note).

12. Profits were artificially inflated by the inclusion of anticipated dividends from companies which in fact were never declared or paid (paras. 16 and 17 of the note).

13. Profits were artificially inflated by the inclusion of interest which should have been put to reserve or laid by as provision for bad and doubtful debts (Para. 24 (2) of the note).

14. Secret reserves were created with a view to hide losses.

15. Properties were appreciated from time to time with a view to hide losses, no information on the point was given to shareholders (see para. 23 of the note).

16. In some cases dividends were paid out of capital (para. 25 of the note).

17. The Balance sheets for 1916, 1917, 1918, 1919, 1920, 1921, 1922 were false and misleading.

18. In September 1915 Boultons obtained a loan of £80,000 from the bank. This loan was repaid with the bank's own money by means of manipulations (*vide* para. 11 of the note).

19. Some of the Directors of the bank were in league with the firm of Boultons (*vide* para. 10 of the note).

20. The condition of the bank's records was confused. (Para. 5).

21. Debts due by Boultons most of which were doubtful, if not bad, were shown as good until 1922 in which year a sum of Rs. 50,00,000 was abruptly shown as "doubtful or bad".

Note.

1. This note has been prepared from—

(a) the liquidators' report.

(b) the joint opinion of five counsels attached to the liquidators' report.

(c) The report of the creditors' committee.

(d) the balance sheets of the bank attached to the committees report.

2. The bank was floated in Simla in 1894. It went into liquidation in April 1923. Messrs. Neison King & Simson and latterly Messrs. Neison Diguassee & Co. Chartered Accountants were the auditors of the Bank. They were also the auditors of most of the Boulton Group of Companies (see page 9, Liquidators' report and para. 40, committees' report).

3. In 1922 the Head Office was transferred from Simla to Calcutta as a condition precedent to Sir David Yule becoming the bank's Chairman.

Prior to its liquidation, the bank had over fifty branches in India with a branch in London.

4. The balance sheet for the year ending 30th June 1922 disclosed:

	Rs.
(a) Paid up capital of	88,94,000
(b) Public deposits of about	16,00,00,000

Large amounts of deposits were withdrawn between May 1922 and January 1923.

5. The liquidators have complained that the bank's records were in a confused condition which was without parallel in the case of an institution of the importance of the bank (page 1).

6. In 1914 Boulton Bros. established connections with the bank. With regard to this connection the Liquidators observe (page 1) "We have endeavoured in our report to trace the history of the Bank from the time when the policy of association with the Firm of Messrs. Boulton Bros. & Co. was first adopted, for it was the impossibility of reconciling this policy with legitimate banking business that caused the destruction of the stable foundations of the bank's prosperity and brought about its ultimate ruin."

Regarding Boultons' connections the Committee observe (page 32) "From the above disclosures it is clear that the entrance of a 'London House' into a new country to join hands 'with an established institution in that country' was the primary factor in the erection of that vicious circle of group companies which dragged the unfortunate bank to destruction Within the short period of seven years of their entrance nine chief satellites of the group sucked the life blood of the bank. Messrs. Boulton Bros. and the companies under their control managed in this brief space of time to deplete the financial resources of the bank to the extent of a little more than four crores of rupees upon securities which were, for the most part, of an extremely hazardous nature".

7. Prior to Boultons' entry the bank's position was as follows (Committees' report page 17).

	Rs.
Capital	20,00,000
Deposits	5,49,41,713
Reserve	30,00,000

Dividends were paid off 14 per cent. and the hundred rupees share was quoted at Rs. 282--274 which testifies to the soundness of the bank's position prior to Boultons' entry.

At the extraordinary General Meeting held on 9th April 1914 the share capital was increased to 40 lacs and a capital of 10 lacs was allotted to Boultons in pursuance of the arrangement with them (see page 17 liquidators' report), Boultons thus acquired a controlling interest. Two of the partners of the firm were also appointed directors of the bank.

8. It is impossible within the scope of a note to refer to all the numerous and gigantic transactions between the bank and Boultons and their group of companies as disclosed in the reports of the Liquidators and the creditors committee. For this reason, the more salient features only have been referred to in this note.

9. Shortly stated Boultons used the funds of the bank in the following ways:—

(a) Direct loans.

(b) Loans to partners.

(c) Bank purchased shares in the Boulton group of companies.

(*d*) Loans were advanced to the Boulton Group of companies.

(*e*) The bank purchased the business of Boultons when it was in a hopeless condition.

10. It may be stated that some of the Directors of the bank were in league with the partners of the Boulton Bros. This is borne out by the private correspondence passed between Mr. R. G. Boulton, Sir James Walker and Sir Arthur Ker. At the Board Meetings held on 15th October 1915, the Directors recorded their disapproval of this correspondence (See para. 5 liquidators report). It appears Sir James Walker the Chairman was in England at this time. On his return he caused the resolution of disapproval expunged (see page 22 Creditors' committee report). The result was that the bank's administration became subservient to the interests of Boulton's firm. It may also be noted that the Chairman Sir James Walker and other Directors of the Bank were also directors of the Boulton Group of companies which were financed by the bank, a fact which established close connections between individual directors and Boulton.

11. In or about September 1915, at the recommendation of Sir James Walker the Chairman who was then in England, the Directors granted a loan of £80,000 to Boultons for six months against securities which were mostly non-marketable (See para. 5 Liquidators' Report). This loan was repaid with the bank's money in the following manner (See para. 6 liq. Report).

On 6th June 1916, the Trust of India, one of Boultons' Group companies offered the bank shares to the value of 12 lacs in another Trust to be registered and called the Banyan Trust, Ltd. The Directors accepted the offer and a cheque for Rs. 18 lacs was enclosed The bank's investment account was debited with 18 lacks and the Trust of India cash credit account with the bank was credited with the amount. On the same day the Trust of India cash credit account was debited with Rs. 20½ lacs which amount was credited to Boultons' account No. 1, and by this means the money paid for the Banyan Trust shares passed to Boultons. Having obtained a credit of Rs. 20 lacs in their account Boultons proceeded to pay off the loan. The Banyan Trust was not actually incorporated until 17th July 1916.

In the balance sheet as at 30th June 1916, the shares of the Banyan Trust for Rs. 18 lacs have been included in "Debentures and stocks held under market rate" for Rs. 1,36,50,912-6-8, with reference to this transaction the following passage from the *joint opinion of counsel* will be found illuminating.

Balance sheet of 30th June 1916.

"We understand that under the heading "Debentures and stocks held under market rate" there are included Rs. 18 lacs worth of shares in the Banyan Trust Ltd., and Rs. 2 lacs worth of "B" preference shares in the same company. We also understand that under the heading "accrued interest" is included a sum of Rs. 7,466-10-8 purporting to represent interest on these shares. Now on 30th June 1916, the Banyan Trust Ltd., had not even been incorporated (it was incorporated on 17th July

1916), no shares had been issued and in the nature of things no dividend could have been declared or interest agreed to be paid. The explanation of the Bank's connection with the Banyan Trust Ltd., at this time seems to be as follows—at the beginning of June 1916 Boulton Bros. & Co. (which we will refer to hereafter as "the Firm") owed the bank £80,000. On 6th June the Trust of India Ltd., offered the bank £120,000 (*i.e.*, Rs. 18 lacs) worth of shares in a company to be registered in India under the name of the Banyan Trust Ltd. The Directors of the bank agreed to apply for these shares and on 7th June a cheque for Rs. 18 lacs was issued to the Trust of India Ltd., and credited to its account on that day. On the same day Rs. 20 lacs was transferred from the account of Trust of India, Ltd., to the Firms' account, thus allowing it to discharge its liability of £80,000. The Rs. 2 lacs of "B" preference shares appear to have been a gift by the Firm to the Bank which enabled it to cover a loss incurred on the realization of certain securities. Whatever the reasons may have been, we consider that the statements in this balance sheet alluded to above were false."

In the aforesaid balance sheet "cash with bankers on current account" was shown at Rs. 16,93,265-6-11 (see page 46 of the Committee's report); Various sums due from Boultons which at 30th June 1916 amounted to Rs. 8,15,000 as per Liquidators' report page 12 for which those directors who were partners in the firm of Boultons were also liable were not separately shown as required by Form F but were included in the aforesaid sum of Rs. 16,93,265-6-11. The joint opinion of counsel on this point shows that the balance sheet did not conform with the provisions of Sec. 132 of the Companies Act. Counsel however advised the liquidators that the omission to show these debts separately would not constitute an offence under Sec. 282 of the Companies Act as there was no deliberate statement that none of this money was owed by directors. (See page 26 of the Liq. Report).

Counsels' opinion, it may be remarked, shows a loophole in Sec. 282. This section must be amended so as to make punishable omissions of material statements in a balance sheet.

12. In the following years Boulton's indebtedness was as under (see page 12 liq. Report.)

	Rs.
1917	24,00,000
1918	60,00,000
1920	65,00,000

This was not separately shown. Counsel have stated that the balance sheets were not according to law. (See page 26 Liq. Report).

13. Para. 9 of the Liquidators' report shows that early in 1917 when Mr. R. G. H. Boulton was the Chairman of the Board it was resolved to increase the bank's capital. On 5th March 1917 the Directors resolved to issue 5,000 ordinary shares to the Development, Corporation Ltd., at Rs. 260 per share. This fresh capital was issued with the object of paying the cash portion of the purchase price of the Rangoon Bank. It was resolved that the premium of Rs. 8 lacs (at Rs. 160 per share) should be placed to special reserve to meet the depreciation in the bank's holding of 3½ per cent. Government paper.

Effect was not given to this resolution until November 1917 when a cheque for Rs. 13 lacs was received from the Development Corporation. In fact the development corporation had no money. The cheque was in reality a cheque on its account with the bank which was already in Debit. It appears that on 8th November 1917 the account of the Development Corporation was credited with Rs. 15 lacs; this payment was made by the Northern and General Investment Co., which had apparently bought the 5,000 shares at a price which left the Development Corporation an alleged profit of Rs. 2 lacs. The Northern and General Investment Co. had also no money, so a further imaginary deal was put through whereby on the same day the Trust of India paid to the Northern & General 16 lacs for the shares for which the Development Corporation had paid Rs. 13 lacs. All the transactions were merely book entries put through the Alliance Bank accounts with the object of hiding their real nature. The liquidators have stated that the method by which this capital was raised was unjustifiable and that the 5,000 shares were not actually paid for in cash either by the Development Corporation or the Trust of India whose accounts were overdrawn. The liquidators further state that the Directors' desire was to obtain premium of 8 lacs to write down Government paper without drawing on the profits. It was for this reason that all these jugglaries were resorted to. In fact the issue was irregular. The premium automatically disappeared and the Directors were really short by Rs. 8 lacs in their reckoning as on 30th June 1918. The liquidators are f the opinion that the transaction being for consideration other than cash, there was a failure to comply with Sec. 104 of the Company Act.

In the notice dated 4th April 1917 calling an extraordinary meeting for sanctioning increase in the capital it was stated that the directors had accepted the offer of the Development Corporation—a "strong" company to buy 5,000 shares of the bank at Rs. 260. The liquidators have characterised the use of the term "strong" in the notice as unjustified. (See page 8 of the report).

The balance sheet for the year ending 30th June 1918 (see page 48 of the committees report) shows that there was an increase in the issued ordinary capital of Rs. 5,00,000 and that a sum of Rs. 13 lacs has been shown as reserve against depreciation of Government paper and other investments.

In view of what has been stated above the reserve provision for Rs. 13 lacs was not a real provision. It was manipulated in the manner stated above and was most misleading as no cash was received for the premium profit on the fresh capital allotted. It was only a paper profit.

14. Paragraph 10 of the liquidators' Report records another transaction carried out somewhat on the lines as the previous one, the liquidators observed:—

> "Referring again to the Minutes of the 5th March 1917, at which the above mentioned issue was made we find that it was resolved to sell the Delhi and London Bank shares to the Banyan Trust Ltd., and to grant the Banyan Trust a loan to enable them to pay for the shares. Messrs. Boulton & Moncriff, it is noted did not vote on this matter *Mr. Dignasse of Messrs. Neison King & Simson, the Bank's Auditors* is reported to have been present at the Meeting

and to have stated that there was no objection on principle to this course. This would ordinarily be so, but in this case there were special circumstances which in our opinion make it difficult to justify the step taken. The Banyan Trust had no hope of paying for this loan and had not done so when the 30th June, 1917, Balance sheet was issued. *In spite of this the Directors utilized the alleged Profit obtained from the deal amounting to Rs. 6,07,725—in writing down Government paper.* Now this profit should certainly not have been taken into account at all, it was only a paper profit, as the asset, *viz.*, the shares, had merely changed its form into that of a loan, and by no stretch of imagination could the profit be called a "realized profit". Here again we are forced to look for the real reason for the transaction and as in the previous para. the only conclusion at which we can arrive is that it was effected to provide additional "profit" to enable the Directors to meet losses at the 30th June, 1917."

15. Para. 13 of the Liquidators' report refers to "Boulton Bros' Rouble Account"; it appears that Roubles were bought at the Peshawar office of the bank and shipped to London, the cost was debited to this account. The balance of the account on 1st December 1917 amounted to Rs. 21,76,653-15-0; on 11th December 1917, the account was credited with Rs. 15,20,325-6-8, transferred to the bank's Roubles investment account for the cost of 15,70,000 roubles at an average rate of 152½ roubles to £10. The rouble business showed a loss of nearly 11 lacs at the end of April 1923 when the bank suspended payment. Referring to this loss the liquidators observe (page 11) "This heavy speculation in Roubles carried out by the Directors can hardly be described as legitimate business from a banking point of view, and the Directors do not appear to have acted prudently in allowing the funds of the bank to be used for the purpose".

16. In the year ended 30th June 1917, profits were inflated by the inclusion of dividends on Banyan Trust shares amounting to Rs. 1,20,000. These dividends were never realised. (Page 15 Liq. Report.)

17. Similarly in the year ended 30th June 1918, profits were inflated by the inclusion of dividends on the same shares amounting to Rs. 1,74,399-10-8. These dividends were never realised. (Page 15 liquidators' report).

18. Chapter III of the Creditors' Committee's Report sets out details of the "involvement of the bank in the Boulton Group of companies".

This is divided into two parts; the first relates to involvement in the purchase of shares; the other relates to involvement in loans to these companies; some of these loans were made on the security of shares of the group companies; it may be observed that the Partners of Boulton Bros. were the promoters of these companies; many of them were private limited companies whose accounts were never made known to the outside world; the partners of Boulton Bros. or their nominees were directors of these companies. Sir James Walker & Mr. W. L. Dallas Directors of the Alliance Bank were also Directors of some of these companies. In fact these companies were controlled by Boultons; most of them have gone into liquidation.

19. The total amount of shares purchased by the bank in the Boulton Group of companies was as follows: (page 28 of the Committees' Report).

	Rs
"1. The Banyan Trust Ltd.	18,00,000
2. The Trust of India, Ltd. (Now in liquidation)	5,00,000
3. The Associated Hotel, Ltd.	30,00,000
4. The Development Corporation, Ltd.	5,00,000
5. The Premier Oil Co., Ltd.	7,05,000
6. The British Ceylon Corporation Ltd.	5,20,000
7. The Mussurie Development corporation, Ltd.	18,00,000
Total value of shares purchased in Boulton Group of Companies	88,25,000

We fear that the bank will suffer heavily on these shares as some of the Companies have already gone into liquidation".

These investments were disguised in the balance sheets under the head "Government Paper, debentures and other stocks".

20. Summary of loans to the Boulton Group of Companies is given below (page 32 of Committees' Report).

		Rs.	AS.	P.
1. Banyan Trust, Ltd.	about	30,00,000	0	0
2. Trust of India, Ltd.		1,11,00,000	0	0
3. Associated Hotel, Ltd.		14,44,494	5	0
4. Associated Debenture		10,00,000	0	0
5. Development Corporation, Ltd.		30,50,000	0	0
6. Premier Oil Co., Ltd.		13,00,000	0	0
7. British Ceylon Corporation, Ltd.		6,00,000	0	0
8. Orient and Co., Ltd.		10,00,000	0	0
9. Delhi Investment Co., Ltd.		7,25,000	0	0
10. Hopes, Ltd.		2,28,652	6	2
Total		2,24,48,146	11	2

The aforesaid loans to the group companies were shown in the balance sheets as good; with the exception of the loans to the Associated Hotels of India, Ltd., Simla, heavy losses were expected on the other loans as the securities deposited with the bank were nearly all worthless. (Page 15 of the Liquidators' report.)

21. Advances were made to one Mr. W. D. Lister, the Chief Accountant and Assistant Manager. Loans were obtained by him to the extent of Rs. 4,50,000 against the shares of some of the Boulton Group of companies; (page 31 of the Committees' Report); in the balance sheets of the bank these were not separately disclosed.

22. Advances were made to Mr. G. A. Moncriff, a partner of Messrs. Boulton Bros. and a Director of the Bank. The total amount of loans advanced to him amounts to £79,850-1-2 (page 31 of the Committees' report); in the balance sheets of the bank these were not separately disclosed; Mr. Moncriff became a director in the early part of 1916 (page 4 of the Liquidators' Report and page 22 of the Committees' Report).

23. From para. 14 of the Liquidators' report it appears that on 1st June 1921 property account was adjusted by Rs. 10,16,323-13-11 which sum being the sale of the Delhi property was transferred to contingency account. Property account was also written up by 14 lacs and the amount was transferred to suspense interest account. The property account printed at page 53 of the Committees' report would explain the position at a glance. Both the liquidators and the creditors' committees are agreed that by these means the directors hid from the shareholders large losses to the extent of nearly 25 lacs; (see page 11 of the Liquidators' report and page 35 of the Committees' report); it may be mentioned that the contingency account and the interest suspense account were kept as secret accounts and not disclosed in the balance sheets. In the absence of any explanations in the balance sheets the shareholders were led to presume that fresh properties were acquired whereas the facts were different.

The minutes of the Board meetings printed at page 35/36 of the committees' report will show conclusively that the object of writing up the properties was to provide for losses in the transactions with Boultons.

24. The Balance sheet for the year ending 30th June 1921 was false and misleading for the following reasons:—

(1) The profits were inflated by the inclusion of anticipated dividends from the shares in the British Ceylon Corporation Ltd. Development Corporation Ltd. and three other companies amounting to Rs. 1,19,358-5-4. These dividends were not declared when the accounts were made up and were never declared (Page 15 of the liquidators' report).

(2) Interest amounting to Rs. 1,90,003-13-6 on part of the balance due by Boultons was included in the profits which had the effect of swelling the profits at the cost of reserves and provision for bad and doubtful debt.

(3) The debts due by Mr. Moncrieff, one of the Directors, was not separately shown (page 37 Committees' report).

(4) Appreciation of the immovable properties mentioned above was not disclosed in the balance sheet.

(5) The debts due by Boultons and the Group companies were shown as good when most of them were bad or at any rate doubtful. (Page 57 of the Creditors Committees' report.)

(6) On 3rd August 1921 the Directors settled the draft balance sheet for the year ending 30th June 1921. They had already taken over the London Business of Boultons and showed its good will at 20 lacs although it was in a hopeless condition. In the balance sheet no reference was made to the good will It was included under the head "Loans, Cash credits and demand advances". The liquidators state that the directors and auditors were wrong in signing the balance sheet as drawn up and that it did not disclose the true position of the bank (page 12 of the liquidators' report and page 37 committees' report).

(7) Shares in the Boulton group of companies were included in the balance sheet under the heading of "Government paper, debentures and other stocks."

Counsels also advised that the balance sheet was false. The following opinion was given by them (page 25 of the liquidator's report).

Balance Sheet of 30th June 1921.

"In February 1921, the Board of Directors were called upon to consider the Firm's financial position and the possibility of its becoming bankrupt. It was apparently considered that if the Firm become bankrupt the undoubted reaction on the Bank's position would be disastrous. It was accordingly decided that the bank should take over all the assets and liabilities of the Firm and work its business. According to the Directors' Minutes, the financial position of the Firm, as they then understood it, was as follows:—

	£
Debt due to the Bank	511,000
Other liabilities	680,000
	1,191,000
Intimated value of assets	941,000
Showing an unsecured short fall of	250,000

In August the position as to 30th June, 1921, had to be considered in view of the yearly balance sheet. The position had then altered to the detriment of the Bank and the short fall as then ascertained or estimated was £400,000. We do not see how this debt could be considered as other than bad or certainly doubtful. If that was so, then the undisclosed reserve of the Bank (at that time approximately Rs. 34 lacs) was insufficient to balance it. The Directors thereupon decided that the good-will of the Firm should be valued at £200,000, thus reducing the short fall to £200,000. We find it difficult to understand how the firm could be said to have any goodwill at all but that might be a matter of opinion. The position was then dealt with in the Balance Sheet as follows. The whole sum of £400,000 was included under the heading "Loans Cash Credits and Demand advances" all of it being placed under debts considered good (either secured or unsecured). There was nothing in the balance sheet to show that the alleged goodwill had been purchased or valued. We thus consider that this Balance Sheet did not truly state the fact, and was a false balance sheet."

"The properties of the Bank were revalued, and the value on the Balance sheet thus augmented without showing that such increase was the result of the revaluation. While we consider this was misleading we are not prepared to say that it rendered the balance sheet false."

The Balance sheet was passed at the meeting held on 30th August 1921. Mr. M. Macfadyen, a Director, congratulated the bank for its prosperous condition and for acquiring Boulton's business on "advantageous times". This misled the shareholders and creditors. These statements were however contradicted in the next years' report in which the Directors stated that "at the end of 1920 the agents in London who had a controlling interest in the bank being in financial difficulties were unable to place at the bank's disposal the funds which were on deposit with them at call." These facts should have been disclosed in the balance sheet of 1921. (See page 51 of the Creditors Committees' report).

25. The balance sheet for 1922 was false and misleading for the following reasons:—

(1) The profits were inflated to the extent of Rs. 1,92,024-1-0 by the inclusion of anticipated dividends from some of the Boultons Group companies while in fact they were never received (page 15 of the liquidators' report).

The following opinion was given by Counsel with regard to this balance sheet.

Balance sheet of 30th June, 1922.

"We consider that this balance sheet is false for the following reasons:—There is an item of Rs. 20 lacs for purchase price of London Banking business. This apparently is the sum of £200,000 but reduced in view of the circumstances. It is not stated to be an estimate of goodwill, but a price actually paid. As far as we know, there had been no purchase and no sum had been agreed upon for goodwill with the assumed seller. Under "Interest accrued" there are included sums of Rs. 42,500 and Rs. 26,400 purporting to be dividends from Development Corporation, Ltd., and Premier Oil Co. Ltd., No such dividends had been realised or ever were. We wish to add that the loan from the London Banks mentioned in the Committee's report is apparently shown in this Balance sheet under the heading "Sterling Loans against Bills and Securities per contra".

It may be stated that by this time the Directors had understood the position; they requested Sir David Yule to accept the Chairman-ship of the Board. The Directors also tried to take the Government of India in confidence (page 38 of the Committees' report).

In this balance sheet bad debts to the extent of Rs. 50,66,530-7-9 were shown for the first time.

The cash balances shown at Rs. 4,50,13,778-9-10 was made up partly by the loan of Rs. 1,45,50,000 raised from Barclay's bank against securities (see page 52, Committee's report).

The goodwill has also been separately shown; counsel have expressed the opinion that the Directors were not justified in placing any value upon the London business taken over and they have advised that the preference dividend for the year was paid out of capital. (See page 28 of the Liquidators' Report).

(v)

Re : *The Bengal National Bank, Limited.*

Note.

Registered	12th September 1907.
Authorised capital	Twenty lacs.
Paid-up capital	Nearly eight lacs.
Suspended payment	28th April 1927.

1. B. K. Banerji appointed Managing Director 16th July 1918.

Mr. Chakrawarti was the Chairman and Mr. Lahiri was another Director. The affairs of the bank were practically in the hands of these three gentlemen. (Page 8). Messrs. Viney and Thurston Chartered accountants were the auditors. The bank suspended payment on 27th April 1927. During the period 1914 to 1917 the public had no confidence in the bank; all kinds of deposits at 31st December 1917 amounted to Rs. 2,77,000 only. (Page 6). Since 1918 confidence was again restored and at 31st December 1922 all kinds of deposits stood at 85 lacs. (Page 6).

It would be pertinent to point out that it was during this period that the Directors were making ducks and drakes of public funds as the report will show.

Since 1922, difficulties set in; they were accentuated in the middle of 1923 consequent on the failure of the Alliance Bank (page 7).

In May 1923, Directors resolved to take steps to realise the outstandings but nothing seems to have been done. In fact the banks' advances went up (page 7). The outstanding debts were as follows:—

31st December 1922	91 lacs.
31st March 1926	103 „
27th April 1927	110 „

The liquidators estimated the realisations to be in the region of 25 lacs (page 10).

The balance sheet for the period ending 30th September 1923 was not presented until 20th July 1925. In this balance sheet bad debts were grossly under-estimated (page 7). The Balance sheets as at 31st March 1925, 30th September 1925 and 31st March 1926 were presented on 22nd September 1926. (Page 78).

In 1923 the bank borrowed from the Imperial Bank and executed two debentures. On 28th April 1927 their receivers took possession on behalf of the Imperial Bank. Subsequently the Imperial Bank filed a suit (No. 1215 of 1927) in which the three receivers were confirmed on 1st June 1927.

Three official liquidators were appointed on 9th August 1927.

2. The bank's advances may be divided into the following categories·

A.—*Advances on shares* (*Chapter 2*).

This Chapter gives detailed information about accounts of various constituents to whom advances were made on shares and in which very heavy losses have been sustained. On 28th April 1927 these advances amounted to approximately 44 lacs out of the total advances of Rs. 14,34,636. Two statements have been compiled by the liquidators; Statement "A" showing these accounts in which sufficient margin was taken at the beginning of indebtedness but which fell into disorder subsequently. Statement "B" showing accounts in which sufficient margin was not taken from the commencement. Both these statements contain startling particulars. In all cases the fall in the value of shares was the primary cause of the trouble. In a number of cases however the accounts were opened against the security only of the shares purchased. In some cases transactions were permitted when the accounts were actually out of order (page 13). When the crash ensued in the sharemarket the bank was found to be holding as security an enormous amount of investments which had depreciated heavily and which were not sufficient to cover the advances. This situation however did not cause the Directors

to despair and "they continued to make advances against shares many of which should have been classed as doubtful security, even with large margins" (page 12).

The details given in the liquidators report regarding a number of accounts in which reckless advances were made will repay perusal. (Pages 14 to 36). The instances cited will show that in many cases interest was charegd on dormant accounts; these accounts are:—

1. A. C. Chakravarti & Bros. (page 14); Account dormant after 30th September 1923; still interest charged.
2. A. G. Peace deceased (page 14); Interest debited till the close of the bank although the estate had been declared insolvent.
3. Chakkan Lall Damoder (pages 17 & 18).
4. Chakravarti R., (page 24).
5. Ghuha, Probodh Chandra, (page 25).
6. P. N. Dutt & Co., (page 29).
7. B. M. Chatterjee (page 30) Interest charged from 1921 to 1927 amounting to over a lac.
8. Promonath Bhattacharya, (page 31).
9. Basant Kumar Paul (page 33).

In their letter of 2nd March 1925, the auditors stated, "we notice that in almost all the cases when the debts are known to be bad interest is still being charged." (Page 61).

The details of the account of Mohini Mohan Roy will show that the Directors Lahiri & Banerji were dealing in shares through him. (Page 15).

There were various accounts in the names of the bank's employees as follows:—

1. Krishnalal De, (pages 14 to 17) Debt Rs. 28,346—Realisation Rs. 8,512.
2. Chakkan Lall Damoder, (pages 17 and 18).

   This was a large account; the balance at 28th April 1927 was Rs. 1,69,328; the securities realised Rs. 78,160.

   The debtor stated that a number of transactions in his account were on behalf of the bank's officers.

3. Amritlal Pale, (page 20).

   He was an employee.

4. Gupta Jyotendranath, (page 21).

   He was an accountant of the bank

In reply to the auditors inquiry as to what debtors were officers of the bank (see page 61) the management gave an evasive reply that there were some accounts in the names of some employees but they were not officers as they had no authority to sign on behalf of the bank. (Page 63).

There was an account in the name of Chakrowarti R. the Chairman's son. There was a short fall of Rs. 30,000—(page 24).

There was an account in the name of Bernard, George Harry; when the account was opened he was in the employ of auditors (page 27). There was a short fall of about Rs. 70,000 in the account.

B.—*Advances on Title deeds.* (*Page 30*).

The following are some of the striking instances of advances on Title deeds which were practically worthless:—

B. M. Chatterji, page 30.

The bank was involved into litigation and suffered heavy losses.

Rajpal Shrikrishna, page 32.

Property unworkable as a coal mine; on 10th December 1925 it was attached for arrears of Royalty.

Paul Basent Kumar, page 33.

The lease showed that the property was unworkable as a coal mine.

Ghose A. K., page 34.

Solicitors advised that the pledgor's title was bad.

Kundanmall Tamakhram, page 34.

The bank accepted title deeds of property which was already sold.

C.—*Advances made on the security of life policies,* (*page 36*).

It appears that debtors assigned life policies; the surrender value was less than the debt; in many cases pro notes were not even executed, (page 36).

D.—*Loans made allowed to be barred.* (*page 36*).

See the liquidators remarks at page 36.

E.—*Loans without security,* (*pages 36 to 40*).

Pages 36 to 40 of liquidators report contain details of accounts to which advances were made without security and partly or wholly lost.

F.—*Advances to trading concerns firms and limited companies* (*page 41*).

These advances were made on the security of stocks, machinery, debts and other assets; in the majority of cases the concerns have failed with heavy losses to the bank, (page 41). The total losses under this head at 28th April 1927 came to Rs. 35 lacs.

Of the many instances cited by the liquidators (pages 42 to 52) the case of Peace's Engineering & Shipping works is rather peculiar, (page 44). This company executed a mortgage for Rs. 1,25,000 although there was an existing prior mortgage, (page 45).

G.—*Advances to constituents with whom Bank's directors were connected* (*Chapter 3, page 53*).

At page 53 of their report, the liquidators observe that in a number of cases Directors of the bank either took an active part in the management of the concerns to whom advances were made or were connected with the parties who managed and controlled the concerns.

The following instances are cited.

Mr. B. K. Chakravarti. Page 53.

Bengal paste Board and paper mills	Director.
Amalgamated News Paper Limited	"
Bengal Laxmi Mill	"

Mr. B. K. Lahiri. Page 53.

Bengal Brick Manufacturing Co.	Director.
Lister Antiseptic and Dressings, Ltd. . . .	Managing Agent and Director.
Peace's Shipping and Engineering Co. . . .	Director.
Sikdar Iron Works	"
Oriental Transport (Bengal) Ltd.	"

Mr. B. N. Banerji. Page 53.

Anglo-American Motor Car Co.	Director.
Lister Antiseptic and Dressings Co. . . .	"
Sikdar Iron Works	"
Art Theaters, Ltd.	"

It may be noted that the Bank has lost heavily in its advances to most of the aforesaid concerns.

Pages 56 to 58 of the Liquidators' report contain information as to moneys borrowed from the Bengal Laxmi Mills. These transactions culminated in a criminal prosecution (Crown *vs.* B. K. Lahiri & Sons), in which the Chairman, the Managing Director and Lahiri were found guilty of various offences and sentenced, (page 56).

H. *Advances made to auditors and their nominees, (page 72).*

At page 72 are stated facts relating to the account of L. G. Bavin, the bank's auditor. He was dealing in shares.

At page 73 are stated facts relating to the account of Kanayalal Dey of 14 Ganguli Lane who was admittedly Bavin's nominee; a number of manipulations are disclosed.

At page 74, are stated facts of an account headed "Messrs. Viney & Thurston, Liquidation Account" a number of manipulations are disclosed.

I. *Directors' accounts, (page 75).*

There was an account in the name of B. Chakravarti but there was no loss to the bank, (page 75). There was an account of the Managing Director, B. N. Banerjee (page 75).

> The history of this account will show that the Managing Director was dealing in shares not only through his own account but also through others. The account was heavily in debt when it was adjusted through a Hundi transaction which has disclosed a grave scandal. (See page 70). There was an account in the name of B. K. Lahiri, (page 76). The history of this account at pages 76 and 77 will show that the director Lahiri was dealing in shares not only through his account but through others also.

It may be mentioned that debts due by directors were not properly shown in the balance sheet, (see pages 69 & 70). In each of the balance sheets for the period ending 30th September 1923, 31st March 1924, and 30th September 1924, the debts of B. N. Banerji were shown at Rs. 2,29,621-3-1, Rs. 2,44,773-2-7 and Rs. 2,00,631-6-7 but on each balance sheet there was a note that the sum of Rs. 1,80,920-0-0 had since been

repaid. This amount was the Hundi amount. No mention was made of the Hundi account. In the balance sheet as at 31st March 1926 the debts due by B. N. Banerjee, *viz.*, Rs. 54,457-13-4 on overdraft account and Rs. 1,90,000 on Hundi account were not disclosed (see page 70).

3. Chapter 4 of the liquidators report (pages 60 to 70) contains startling facts as regards the extent to which the bank's position was not disclosed in the balance sheets. This chapter makes a sorry reading. There are traces of frauds and collusion between the management and the auditors. The facts set out will show how bad and doubtful debts were grossly under-estimated and how bad debts were shown as good or fully secured. The list at pages 68 and 69 gives particulars of various accounts and of the balances of these accounts on 30th September 1927 and 28th April 1927 which though irrecoverable were included as good. The differences have run into lacs which were all bad and irrecoverable but not shown as such.

4. In chapter 5, the account of the Directors is discussed, pages 71 to 80.

The directors had pledged all available securities with the Imperial and Central Banks; they did not close the bank's door although it was in an insolvent state for the following reasons:—

(a) They had borrowed large funds from the Bengal Laxmi Mills and they wanted to suppress that fact from the shareholders of that company in which the Bank's directors were also directors, (page 71).

(b) They did not want to reveal the fact that one of the directors owed a large sum of money for which he was unable to give security, (page 71).

(c) They did not want to reveal the fact that a large number of concerns to which loans were advanced were verging upon bankruptcy, (page 71).

(d) They did not want to reveal the fact that reckless advances were made on overdrafts and that the securities had dwindled down and the debtors were without means, (page 71).

5. In chapter 6, the liquidators state their conclusions, (page 79).

(1) Bad and doubtful debts underestimated and shown as good. They give a list and point out that when the balance sheets were prepared the Directors knew that the debts were bad or doubtful, (page 80).

(2) The auditors' letter to the bank of the 2nd March 1925 (page 60) admitted that some of the aforesaid debts were bad yet they signed *the balance sheet without drawing the shareholders' attention.*

(3) The auditors also failed to draw the shareholders' attention to other debts, (page 81).

(4) B. N. Banerji's debt on Hundi account was not disclosed in the balance sheet, (page 81).

(5) The auditors did not draw the shareholders' attention to mis-statements of the debts due by directors and employees of the bank, (page 81).

(6) The debt of the managing director, B. N. Banerjee was reduced by the credit of a fraudulent cheque for Rs. 2,56,000 drawn on the account of the Bengal Laxmi Mills, Ltd., (page 81).

6. Annexed to the liquidators' report is some correspondence between them and the auditors (see pages 82 to 93) which will further explain the position about many bad doubtful debts; the Managing Directors' list enclosed with his letter to the auditors, dated 9th March 1925 which is attached to the correspondence will show how false valuations were made in respect of the debtors securities.

(vi)

Re.—The Peoples' Bank of India.

Note.

This note is prepared from the letter, dated 12th August 1913 from Messrs. Basantram & Sons auditors of the Peoples' Bank to the Directors of the Bank published in the Arya Patrika of 25th October 1913; it is a big letter; only the salient points are summarised.

1. It appears that in reply to the auditors' remarks concerning the bank's accounts, the directors stated that the Auditors' view was not always in accordance with banking experience and that in some cases they found that the auditors remarks were not in accordance with the requirements of the banking practice. The auditors seem to have resented this reply. At the beginning of this letter they refer to the notes of the Manager at the Head Office and they refer to various matters concerning the management of the bank.

2. The auditors state "there is one and the same gentleman (Harkishen Lal) the controlling spirit both *as a lender and as a borrower*. The responsibility has been reduced to a minimum".

3. The Auditors further state "in many accounts interest is not recovered in spite of the repeated efforts by the bank *and the same is being debited to different accounts and credited to profit and loss account.*"

4. They also state "in many cases the amounts of pronote or documents held by the bank are *for lesser amounts* than the balances contained in the books. This is as we have been previously pointing out due to the non-recovery of interest from half-year to half-year. We have in previous half year dealt with the various securities held by the bank in different account, their market or intrinsic value and also the financial position of the debtor companies and other parties but as the Directors repeatedly assure us that the securities held by the bank fully cover debts we again propose to deal with the question of securities of some of the big debts of the bank so that the Directors may be able to convince us *as to the safety of the debts before we can again address the shareholders*"

5. After pointing out that the banking experience and banking practice were not the sole monopolies of the Board of Directors of the People's Bank the auditors required of the Directors jointly and individually whether they are of the opinion that all the debts of the bank at the Head Office and Branches were good and safe and whether the securities held

were also ample to cover debts including interest. They then drew the Directors attention to the accounts of various debtor companies and made various remarks. With regard to the Pioneer Investment Company, particularly the auditors observe as follows:—

> "from the above it is clear that the securities held by the bank are short by Rs. 30,687-2-6 if the value of the shares of all the companies held as securities be accepted even at par. But as a matter of fact the value of the shares held as security has not only considerably fallen but (in our opinion) majority of shares *are not worth the paper on which they are written.* The shares of the Punjab Cotton Press Company Limited and the Lahore Spinning and Weaving Mills Company, Limited lodged as security in account (B) have been purchased by the Pioneer Investment Company, Limited *at a considerable discount* while they are accepted as security by the bank at *face value*".

6. The Auditors further observe as follows:—"the 1,250 shares of the Cawnpore Flour Mills Company lodged as security in account (*e*) have been valued for the sake of security in the Pioneer Investment Company, Limited, account at Rs. 1,25,000 while share of the same company numbering 1,205 are valued at Rs. 1,00,000 only in the Nowshera Timber Syndicate account. It is rather strange that such things should be allowed particularly when the correspondence of Brokers Messrs. Goverdhandas & Co., brokers pertaining *to sale of certain shares is also available amongst the share certificates.* Such state of affairs would have never happened except for the fact that Mr. Harkishanlal is the common factor everywhere".

7. The letter quotes various notes of the manager to the Managing Director in connection with the debts owed by different companies.

(vii)

Re.—Amritsar Bank, Limited.

Note.

The following note is prepared from the letter of Messrs. Basant Ram & Sons to the Directors of the Amritsar Bank of 25th August 1913 published in the Arya Patrika of 1st November 1913.

1. The auditors point out that interest is not being recovered *and that the same is being debited to different accounts and credited to profit and loss account.*

2. The auditors point out that in many cases the amount of pronotes or documents held by the bank *is less than* the balances standing in the book.

3. After pointing out that the position of the bank has become serious the auditors go into the accounts of the individual debtor companies to show that the securities held *are not sufficient to* cover the debts. They inquire on the directors whether various debts are considered good and recoverable.

4. The Auditors then discuss accounts of individual constituents and make remarks and observations into which it is not necessary to go.

No. 4.

Letter from Indian Chamber of Commerce, Calcutta, to the Secretary, Indian Central Banking Enquiry Committee, dated Calcutta, the 7th January 1930.

The basis of the estimate made by my Committee about the share of Indians in the total foreign trade of India being about 15 per cent. of the whole trade. My Committee have made a detailed calculation with reference to the trade at the port of Calcutta in estimating the share of Indians in the export and import trade. The information about the trade in raw jute and jute manufactures is compiled from the sheets published by Messrs. J. Banerjee & Co., and of the imports of cotton manufactures has been compiled from page 190 of the book on the Cotton Industry of India by Mr. Arno S. Pearse. The sheets are attached herewith for the information of your Committee. The information about the share of Indians in the other articles of trade have been arrived at on the basis of Customs Returns and verified by personal enquiries from the people in the trad . The chief articles of trade amounting in value to nearly 200 crores of rupees, have been included in the calculation, although the total trade of Calcutta for the year 1928-29 amounted to 226 crores of rupees, but the same percentage of the share of Indians may be assumed for the balance of the trade. It will be seen that the percentage for Calcutta comes to about 20 for the calendar year 1929 and financial year 1928-29 as shown in the table I, attached herewith. The share of the Indians in the previous years was much less, in respect of jute and jute manufactures as shown in table II, attached herewith.

In arriving at a general figure of 15 per cent. for the whole of India my Committee were influenced by the consideration that in Madras and Karachi the share of Indians in the Export and Import Trade is much less than in Calcutta.

ENCLOSURES.

TABLE No. I.

An estimate of the share of Indians in the Export and Import trade of Calcutta.

Imports (1928-29).

Name.	Value.	Value of Import trade handled by Indians.
Cotton Manufactures	24·00 lakhs.	12·00 lakhs.
Metals and Ores	10·60 ,,	3·00 ,,
Machinery and Mill-work	6·93 ,,	·38 ,,
Sugar	6·19 ,,	1·50 ,,
Grain, Pulse and flour	5·00 ,,	·20 ,,
Mineral and vegetable oil	4·66 ,,	..
Vehicles, Motor cars, etc.	3·33 ,,	·16½ ,,
Instruments (electrical) and other appliances	2·00 ,,	·20 ,,
Hardware	1·76 ,,	·88 ,,
Spices	1·49 ,,	·59 ,,
Tobacco	1·15 ,,	—
Wool and Woollen manufactures	1·14 ,,	·57 ,,
Salt	1·08 ,,	·25 ,,
Liquors	1·00 ,,	·10 ,,
Chemicals and chemical preparations	1·00 ,,	·25 ,,
Papers and pasteboard	1·00 ,,	·10 ,,
Provisions and Oilman's stores	1·00 ,,	·5 ,,
Glass and glassware	·74 ,,	·37 ,,
Drugs and Medicines	·71 ,,	·35½ ,,
Rubber	·70 ,,	..
Paints and painting materials	·49 ,,	·4 ,,
Leather	·22 ,,	·2 ,,
Total value	76·18 ,,	21·02 ,,

TABLE No. I—contd.

(*Exports 1928-29.*)

Name.	Value.	Value of Export trade handled by Indians.
Jute manufactures	56·00 lakhs.	8·00 lakhs.*
Jute (raw)	30·00 ,,	9·31 ,,
Tea	16·00 ,,	..
Lac, gum and raisins	9·35 ,,	·93 ,,
Hides and Skins (raw)	5·71 ,,	·57 ,,
Metals and Ores	3·67 ,,	·37 ,,
Grain, pulse and flour	2·93 ,,	..
Seeds	1·84 ,,	·46 ,,
Opium (Government)	1·57 ,,	..
Oil cakes	·92 ,,	·9 ,,
Mica	·74 ,,	·25 ,,
Cotton manufactures	·62 ,,	·62 ,,
Manures	·59 ,,	·5 ,,
Dyeing and tanning substance . . .	·57 ,,	·5 ,,
Drugs and Medicines	·19 ,,	·3 ,,
Chemicals	·10 ,,	·2 ,,
Total value .	130·80 ,,	20·75 ,,
Grand Total .	Total value of Import and Export trade of articles mentioned above 206·98 lakhs.	Total value of Import and Export trade of articles mentioned above handled by Indians 41·77 lakhs. Percentage 20.

*Figures for the calendar year 1929.

†Figures for the year from July 1928 to June 1929.

Table No. 2.

Figures of the value of the trade handled by Indians in Raw Jute.

Jute Export.

July 1926—June 1927.

Bales—			Rs.
9,36,886	Indians	21 per cent.	5,94,75,360
35,13,620	Non-Indians	79 per cent.	22,37,40,640
44,50,506	Total		28,32,16,000

July 1927—June 1928.

Bales—			Rs.
11,09,837	Indians	22½ per cent.	6,92,44,721
37,97,373	Non-Indians	77½ per cent.	23,85,09,597
49,06,310	Total		30,77,54,318

July 1928—June 1929.

Bales—			Rs.
14,26,227	Indians	29½ per cent.	9,31,05,680
34,09,296	Non-Indians	70½ per cent.	22,25,06,794
48,35,523	Total		31,56,12,474

July 1929—June 1930.

Bales—			Rs.
15,06,291	Indians	34 per cent.	9,87,44,334
29,45,564	Non-Indians	66 per cent.	16,22,68,413
44,51,855	Total		26,10,12,747

Figures of the value of the trade handled by Indians in jute manufactures, 1925.

Bags in pieces.		Total value of trade. Rs. 28,25,95,069	
Indians.	Non-Indians.	Indians.	Non-Indians.
		Rs.	Rs.
8,41,54,910	43,06,67,391	2,47,27,068	25,78,68,001
4,51,82,260 Coastal	2,80,64,884	..	—
3,89,72,650	40,26,02,507	..	..
8¾ per cent.	91¼ per cent.		

Hessians in yards.		Total value of trade. Rs. 31,77,52,577	
Indians.	Non-Indians.	Indians.	Non-Indians.
		Rs.	Rs.
28,61,10,869	1,21,42,60,323	5,71,95,464	26,05,57,113
1,66,13,019 Coastal	81,11,001	..	—
26,94,97,850	1,20,61,49,322		
18 per cent.	82 per cent.		

1926.

Bags in pieces.		Total value of trade. Rs. 26,28,07,750	
Indians.	Non-Indians.	Indians.	Non-Indians.
		Rs.	Rs.
7,72,62,544	42,58,54,695	2,43,09,717	23,84,98,033
3,68,04,289 Coastal	2,98,23,258	—	..
4,04,58,255	39,60,31,437	..	..
9¼ per cent.	90¾ per cent.		

Hessians in yards.		Rs. 28,41,93,914	
Indians.	Non-Indians.	Indians.	Non-Indians.
		Rs.	Rs.
23,17,68,129	1,27,68,01,418	4,12,08,117	24,29,85,797
1,60,04,839 Coastal	1,00,28,774	..	..
21,57,63,290	1,26,67,72,644	..	..
14½ per cent.	85½ per cent.		

1927.

Bags in pieces.		Rs. 24,81,03,879	
Indians.	Non-Indians.	Indians.	Non-Indians.
		Rs.	Rs.
6,78,76,710	45,23,21,520	3,10,12,985	21,70,90,894
1,24,53,460 Coastal	6,49,04,575	..	..
5,54,23,250	38,74,16,945	..	..
12½ per cent.	87½ per cent.		

Hessians in yards.		Rs. 29,92,04,216	
Indians.	Non-Indians.	Indians.	Non-Indians.
		Rs.	Rs.
19,45,84,000	1,37,10,51,014	3,51,56,495	26,40,47,721
1,15,67,000 Coastal	75,99,137	..	..
18,30,17,000	1,36,34,51,877	..	..
11¾ per cent.	88¼ per cent.		

1928.

Bags in pieces.		Total value of trade. Rs. 26,32,99,062	
Indians.	Non-Indians.	Indians.	Non-Indians.
		Rs.	Rs.
1,41,78,975	52,10,35,029	1,71,24,439	24,61,74,623
6,20,57,225 Coastal	4,84,54,271	..	..
5,21,21,750	47,25,80,758	..	..
6½ per cent.	93½ per cent.		

Hessians in yards.			Rs. 31,61,43,757	
Indians.		Non-Indians.	Indians.	Non-Indians.
			Rs.	Rs.
33,02,41,040		1,27,29,57,949	6,24,38,392	37,05,365
73,27,240	Coastal.	91,05,225	..	..
31,29,13,800		1,26,38,52,724	..	..
19¾ per cent.		80¼ per cent.		

1929.

Bags in pieces.			Rs. 22,91,16,602	
Indians.		Non-Indians.	Indians.	Non-Indians.
			Rs.	Rs.
6,83,27,490		51,61,36,467	1,83,29,328	21,07,87,274
2,80,19,915	Coastal	5,17,41,598	..	..
4,03,07,575		46,43,94,869	..	..
8 per cent.		92 per cent.		

Hessians in yards.			Rs. 29,68,36,706	
Indians.		Non-Indians.	Indians.	Non-Indians.
			Rs.	Rs.
37,70,75,013		1,31,79,79,506	6,53,04,067	23,15,32,639
87,96,763	Coastal	1,43,13,658	..	..
36,82,78,250		1,30,36,65,848	..	..
22 per cent.		78 per cent.		

No. 5.

LETTER FROM THE EXCHANGE BANKS' ASSOCIATION, TO MR. R. W. BUCKLEY, MEMBER, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE, DATED THE 13TH OCTOBER 1930.

SUBJECT.—*Up-country Branches of Foreign Exchange Banks.*

I enclose herewith a list of the above which I trust meets with your requirements.

This I send you at the request of Cooke.

—	Foreign Exchange banks.	Up-country Branches.
Cawnpore . . .	Chartered . . .	Opened 1920.
	National . . .	,, 1889.
Delhi . . .	Chartered . . .	,, 1912.
	National . . .	,, 1895.
	Mercantile . . .	,, 1912.
	Lloyds . . .	(King King and Co.) Amalgamated with Lloyds Bank February 1923.
Amritsar . . .	Chartered . . .	Opened 1910.
	National . . .	,, 1900.
	Lloyds . . .	,, 1930.
Lahore . . .	National . . .	,, 1900.
	Lloyds . . .	,, 1928.
Simla . . .	Mercantile . . .	,, 1923.
	Lloyds . . .	,, 1910. (King King and Co.) Amalgamated with Lloyds Bank February 1923.
Rawalpindi . . .	Lloyds . . .	Opened 1906. (Cox and Co.) Amalgamated with Lloyds. Bank February 1923.
Peshawar . . .	Chartered . . .	Opened 1926. (Closed 1930.)
Srinagar . . .	Lloyds . . .	Opened 1908. (Cox and Co.) Amalgamated with Lloyds Bank February 1923.
Murree . . .	Lloyds . . .	Opened 1907. (Cox and Co.) Amalgamated with Lloyds Bank February 1923.
Gulmarg . . .	Lloyds . . .	Opened 1909. (Cox and Co.) Amalgamated with Lloyds Bank February 1923.
New Delhi . .	Lloyds . . .	Opened 1927.

Indian Brokers and Exchange Business.

Question.—Are any restrictions placed on Indian Brokers doing Exchange business in Madras and Karachi *vis-à-vis* the Exchange Brokers' Association at these Ports?

Answer—

Madras.—In reply to your letter of 15th instant I am requested by the Members of our Association to inform you that there are no restrictions placed on Indian Brokers doing Exchange Business in Madras. There are two firms of European Brokers and two Indian Brokers and the volume of Exchange business in Madras does not in our opinion warrant more.

CHAIRMAN,

Associated Exchange Banks in Madras.

The 23rd September 1930.

Karachi.—In reply to your letter of 15th instant, there is a long established European Brokers Association in Karachi with which body the Associated Exchange Banks have certain agreements. These agreements do not preclude the admission of an acceptable Indian as a broker by the Exchange Banks, but there are already too many brokers for the present volume of business in Karachi.

CHAIRMAN,

Associated Exchange Banks in Karachi.

The 19th September 1930.

Question A.—Have any Exchange Banks in Calcutta purchased bills on Buenos Aires *without* a Letter of Credit being opened ?

Question B.—Have any Exchange Banks in Calcutta purchased bills on Santos *without* a Letter of Credit being opened ?

——	Buenos Aires.	Santos.
The Chartered Bank of India, Australia and China.	No.	No.
The National Bank of India, Limited.	No.	No.
The Hongkong and Shanghai Banking Corporation.	No. Not during the last seven or eight years.	No. Not during the last seven years.
The Mercantile Bank of India, Limited.	No.	No.
National City Bank of New York .	No. Not during the last seven years.	No. Not during the last seven or eight years.
The Eastern Bank, Limited . .	Yes. 1930 £1,980 all from an Indian firm.	No.
The Yokohama Specie Bank, Limited.	No.	No.

—	Buenos Aires.	Santos.
Lloyds Bank, Limited . . .	Yes. 1929 £2,650 of which £775 Indian. 1930 £1,094. all Indian firms.	No.
Netherlands India Commercial Bank.	No.	No.
P. and O. Banking Corporation, Limited.	No.	No.
Netherlands Trading Society	No.	No.

Question C.—Is it customary for Banks to negotiate bills on Saint Freres London (D/A) without a Letter of Credit, or special arrangements being made by the drawees ?

The Chartered Bank of India, Australia and China.	No. But bills for moderate amounts have been purchased from close constituents of first class standing.
The National Bank of India, Limited .	No.
The Hongkong and Shanghai Banking Corporation.	No. But small bills are purchased from approved drawers.
The Mercantile Bank of India, Limited.	No.
National City Bank of New York . .	No.
The Eastern Bank, Limited . . .	No. But small purchases have been made of which 50 per cent. Indian.
The Yokohama Specie Bank, Limited .	No.
Lloyds Bank, Limited	No. But small bills have been taken occasionally from undoubted drawers.
Netherlands India Commercial Bank .	No.
P. and O. Banking Corporation, Limited	No.
Netherlands Trading Society . .	No.

Question.—It has been stated that certain big European Commercial firms obtain facilities from the Exchange Banks for the purchase of produce at different mofussil centres and that similar facilities are not available to Indian Firms. Can you kindly furnish us with statistics to show the assistance given by the Exchange Banks to Indian and non-Indian merchants in this respect?

Answer.—Statistics as to the amount of finance given to Indian and non-Indian firms for the purchase of produce at mofussil centres cannot be produced as such items are not traceable or distinguishable in the Banking accounts of such clients or in any of the books of the Exchange Banks.

In almost all cases, advances and cash credit facilities are given by the Exchange Banks for the *general* trading requirements of the firm concerned.

The subject matter of this question was partly dealt with in connection with Cash Credit Accounts when the oral evidence of the Bank's representatives was taken.

No. 6.

LETTER FROM B. RAMACHANDRA RAO, ESQ., TO THE SECRETARY, THE CENTRAL BANKING ENQUIRY COMMITTEE, DATED THE 1ST OCTOBER 1930.

In elucidation of certain points referred to in my oral evidence I am herewith sending you the information required under the following headings.

I.—The agency services which the Big Five of London perform gratuitously can be understood by a reference to Syke's Book entitled "The Present Position of the Big Five or English Joint Stock Banking". These services can be undertaken by some of the Indian Joint Stock Banks who perform some of these services for commission extracted from the customer. The Current Account of the customers of the Big Five of London are not paid and in return the banks compete with each other to extend their usefulness to the customers in several directions. Such sort of emulation does not exist in the Indian money market and as current accounts are paid these services are done or executed for some commission.

1. The making of all kinds of payments which customers desire to make.
2. The collection of proceeds of dividends, coupons, drawn bonds, sales of investments, annuities and other rights to money and credit.
3. The handling of all documents arising in connection with purchase and sales in the matter of foreign trading on the part of their customers.
4. The gathering of reliable information by the intelligence or statistical departments.
5. The storing of valuables, etc.
6. The handling of income-tax business on the one hand and the executor and trustee business on the other.
7. The buying and selling of stocks and shares by supplying lists of recommended investments and financial information for which indeed no direct responsibility is assumed.
8. The acting as issuing houses for inviting subscriptions to new issues of capital on behalf of firms seeking to obtain capital from the public.

The customers of the Indian Joint Stock Banks do not indeed require such a wide variety of facilities just at present. But it indicates the scope of future action on the part of the Indian Joint Stock Banks.

(This is in elucidation of the oral question of Sir Purshotamdas Thakurdas.)

The treatment of foreign Banks in Turkey.

The national Government of Turkey insists on the appointment of Turkish citizens as Bank officers on a fifty to fifty basis, *i.e.*, if there are two managers, one must be a Turkish citizen and so on.

The latest piece of information about Turkey's attitude towards the foreign banks is the prohibition of the use of mechanical devices which might result in throwing the Turkish people out of employment. (Indian Bank).

See "Statesman"—July 14, 1928—(See Sir Bhupendranath Mitra's questionnaire).

The discounting of Bills of the Tata Industrial Bank in the Calcutta Money Market—

See Question 12580 of Sir Alexander Murray addressed to Mr. M. M. S. Gubbay (Hilton-Young Commission) London Evidence—Vol. V, p. 125—

> "As a matter of fact the Tata Steel Company and the Indian Iron and Steel Company do draw at 90, day sight on buyers of their goods and these are now discounted with the Imperial Bank in Calcutta. Now that Sir Alexander Murray is returning along with the Royal Commission on Labour a reference can be made to him to give the Committee an idea of the extent of the bills discounted by the Imperial Bank of India."

No. 7.

Letter from Seth Kasturbhai Lalbhai, to the Secretary, Indian Central Banking Enquiry Committee, dated the 14th October 1930.

With reference to your letter dated 16th September 1930, I beg to give you the following information.

Seven memos. [of the National Bank of India Limited] have been enclosed herewith from which you will find that the rate of interest charged is 7½ per cent. in three instances and 7 per cent. in four instances. Please return the memos. when you have done with them.

Further we had some correspondence regarding this with our London Shippers and this is what they wrote to us in August 1929. "When the Bank of England rate was at 4½ per cent. all the Eastern Banks charged 6 per cent. interest on bills drawn on customers in India. When the bank rate was increased to 5½ per cent. they all increased their Bill rate to 7 per cent. and 7½ per cent."

Regarding the rate of exchange I hope to write to you shortly.

The rates of deposit offered by a mill under my management are as under:—

1923	6 per cent.
May 1926	5½ ,,
January 1927	5 ,,
October 1929	5½ ,,

I trust this will be found satisfactory.

Letter from Seth Kasturbhai Lalbhai, to the Secretary, Indian Central Banking Enquiry Committee, dated the 14th February 1931.

I beg to acknowledge receipt of your letter dated 11th inst. together with a copy of my oral evidence, and thank you for the same. I am sorry it is not possible for me to give you the necessary information regarding the exchange rate.

No. 8.

Letter from Dr. P. J. Thomas, to the Secretary, Indian Central Banking Enquiry Committee, dated the 12th December 1930.

I have collected information on most of the points raised by you about the Nidhis. The chief points are summarised below:—

1. The total number of Nidhis registered till 31st December 1929 were 1,021.
2. The total number of Nidhis that have gone into liquidation till the same date were 724.
3. The number that therefore remained on the registers at the same date were 297.

In drawing conclusions from these facts, it must be borne in mind that a large number of Nidhis are terminable transactions and are extinguished by the mere efflux of time. This, however, cannot be said of the liquidations during certain periods of panic or mania. For example, in 1872, it was discovered that the Nidhis had no legal status, not having been registered under the Indian Companies Act. This led to the collapse of several Nidhis, involving a loss to the extent of Rs. 20 lakhs. In 1905-06, there arose a mania for the starting of insurance societies (chiefly for marriage insurance) modelled on the provident societies of Calcutta. Several of those were bogus concerns and soon collapsed. We may say, however, that from 1912 onwards, more than 50 per cent. of the Nidhis liquidated by the mere efflux of time.

4. *Statistics of existing Nidhis.*

	Rs.
1. Paid-up capital	2,02,74,495
2. Deposits	62,45,361
3. Reserves	20,05,547

No. 9.

Letter from Principal M. L. Tannan, to the Secretary, Indian Central Banking Enquiry Committee, dated the 25th September 1930.

As desired by the Chairman, Indian Central Banking Enquiry Committee, at the time of my oral evidence, I send herewith 4 copies (1 for the Chairman and the remaining 3 for circulation among the members of the Committee) of the extracts in further support of my written answer to question No. 4 in Part IV (Banking Education) of the Questionnaire of the Committee.

EXTRACTS BEARING ON THE NEED AND SUITABILITY OF UNIVERSITY TRAINED MEN FOR EMPLOYMENT IN BANKS.

Submitted by Mr. M. L. TANNAN, M.Com. (Birm.), Bar.-at-Law, I.E.S., Principal, Sydenham College of Commerce and Economics, Bombay, in further support of his written answer to question No. 4 in Part IV (Banking Education) of the Questionnaire of the Indian Central Banking Enquiry Committee.

1. Mr. Gresham Gray says that the university man would solve the main difficulty of finding suitable men for the higher posts in banks:—

"The main difficulty of finding suitable men for the higher posts is, I believe, due to lack of proper organisation and training of staffs, and attempts have been made to get round this difficulty by offering special inducements to Public Schools and University men to enter the service. Before the days of large amalgamations, some of the country banks went in so far as to entice these men by promises that, all being well, they would ultimately be given seats on the Board.

. . . The Banks are crying out for brains and character, and pay handsomely for these qualities, and there are senior staff positions carrying responsibilities and pay of which any man might be proud. My experience has been that the prospects to competent men of reaching these posts at a reasonable age are good enough to satisfy the most ambitious, and it must not be forgotten that university men would start the race with great initial advantages."

(October, 1925 issue of the Journal of the Institute of Bankers, pages 357-358.)

2. The same writer pleads for concessions to the university candidates, who are bound to increase the efficiency of bank staffs:—

"There are, however, two disabilities under which the university candidate who has taken his degree enters the service, and which ought to be removed. His age of entry is necessarily three or four years later than that of the ordinary candidate, with the consequence that he is handicapped both in his initial salary and as to the basis on which his pension is calculated. In common fairness, therefore, his salary should start at the figure to which he would be entitled had he joined the bank at the normal age of entry, and the years spent at the university should be accounted to him for pension.

"It is my firm opinion that a constant supply of the best candidates for the higher posts can only be assured by a sound system of organisation and training and when the banks tighten up their machinery on the lines indicated, the university man will, I believe, enlist. And if this does come about, the bank staffs will, as a result of keener competition, become even more efficient than they are to-day."

(March, 1926 issue of "The Banker": Article headed "The Banks and the Universities".)

3. Mr. Walter Leaf, Litt.D., D.Litt., in his presidential address before the members of the Institute of Bankers, while declaring that university training and qualifications formed a distinct recommendation, suggests the establishment of a "University Bureau" as a liaison department between the University and the business houses:—

"But we must not shut ourselves out from taking in men who have preferred to get their education first, and some to us at a somewhat later age than our normal entrants, with the recommendation of a university course certified by a diploma or degree. It is in the hope of getting a supply of good recruits, men who had the foresight and the grit to see that education is the sure way to success, that we have supported and are closely following the movement for the Commerce Degree in London. An essential element, as a liaison department between the University and the business houses, will be the establishment in the City of a "University Bureau". It is proposed that the principal functions of this bureau shall be in the first place to guide, advise, and assist in matters of commercial studies all external students of the University residing in London or elsewhere, who are preparing for the Commerce examinations, and secondly to assist in the employment of all qualified students or graduates by serving as a means of communication between them and would-be employees."

(April, 1920 issue of the Journal of the Institute of Bankers.)

4. Mr. Joseph Sykes in his book "An Outline of English Banking Administration" while speaking of 'Head Office Appointment' observes as follows:—

"At the present time, experiments are being tried (to a small extent only) to recruit some part of the staff from men who have had university training. The formation in recent years of the intelligence departments of the banks has helped to further the experiments." (Page 40.)

5. According to "Scrutator", holders of the Degree of B.Com. should be marked out for "the higher executive" in bank service:—

"As most likely, the holders of the B.Com. Degree will be more or less specialists in one branch of commerce, recognition would more probably be on the lines of promotion to departmental posts, or the higher executive than on marking with a view to branch management."

(June, 1921. issue of the "Bankers', Insurance Managers', and Agents' Magazine": 'Staff Organisation'.)

6. According to Mr. Charles Davis who declares that the prejudice against theoretical knowledge is misplaced, the possession of a diploma in banking is necessary for those who would be successful bankers:—

"After all, it is not an unheard of departure to institute an examination in any calling of brain workers. Leaving out of consideration the professions, law, medicine, etc., where a diploma is compulsory as a preliminary to practising, one may call attention to the business or profession of Accounting. Any one with a knowledge of book-keeping can keep a set of books,

but if a would-be accountant expects to ... his walk of life, the possession of diplom... Societies of Accountants is absolutely nec... cult to see on what grounds a similar pro... considered superfluous in banking. If it is o... ing is decidedly practical, so is accounting, a... it is a calling in which theoretical knowledge ... as experience which can be gained in active wor... comes to us, knowledge we have to seek."

(October, 1922, issue of the "Bankers', Insurance M... Agents' Magazine": 'Staff Organisation'.)

7. Mr. Allan F. Wright says that he who will win the game ... must comply with certain conditions which are mentioned below...

"Business is a game, and those who would win, must pay t... You cannot play the game unless you know the rules an... to apply them. Success in Business is not like war, ... most powerful, but to the fair, the just, the shrewd, ... far-sighted, those who know the game and play it well. ... success in banking will come to the banker only, as he kn... and understands the rules and the precedents of the bank... game. He must have a knowledge of the functions of money, the principles of economics, the customs of business, the science of accounting, the law of bank cheques. He must know whom to trust and how to deal with people, how to finance ... business, how to invest funds wisely, how to run a bank, and having learned the law and the practice, he will become a good banker."

(August, 1921, issue of "The Bankers' Magazine": 'Study Your Job—the Key to Success'.)

8. Regarding the increasing scope given to graduates in banks in America, observes as follows:—

"Another remarkable feature about the character of the personnel of an American bank is the large number of college graduates, one meets in bank service. . . . . . In America, the college graduate is highly rated. . . . The number of College men recruited for bank service has also been increased during recent years by the demand for men of good education, personality, and a knowledge of foreign languages to take charge of branches which American banks and trust companies were organising abroad."

(May, 1922, issue of 'The Journal of the Institute of Bankers', pages 207-208.)

9. The increasing need for a thorough training in banking is emphasised in the following passage:—

"Modern banking is far too complex to permit the individual banker to learn from personal contact and experience alone. . . . The best bankers are those who best understand their business—the science of it—the law of it—the economics of it."

(August, 1921, issue of 'The Bankers' Magazine', page 216.)

10. The following is a vigorous plea for banking education:—

"Therefore whether you be a bank clerk or bank officer, the question of banking education is a subject to which we are all bound by that invisible cord of mutual interest. If the development of the personnel of the banks through practical education that has for its purpose further to extend into the lives of the junior bank men of our country, those immeasurable benefits that accrue from the increased knowledge of the fundamentals of banking, a broader conception of the relation of banking to industry, commerce, and agriculture and perhaps best of all, those richer joys of a wide mental horizon with its attendant broadened vision of life and its responsibilities, is not a matter of common interests both to bank employer and employees. I know not the meaning of words nor their application."

(September, 1921, issue of 'The Bankers' Magazine'. 'Banking Education, by Stuart D. Beckley', page 428.)

11. The urgency of higher education in banking is admirably brought out in the following extracts:—

"Commercial schools can, indeed, turn out routine clerks, but not men who are able to climb the ladder to the top.".

(June, 1922, issue of "The Bankers', Insurance Managers', and Agents' Magazine": 'Foundation for Banking Education', page 856.)

12. Only First Class men can run modern banks:—

"To run our big banks successfully, men of exceptional ability and character are needed. They must be, not only economists of a high order, but the equal in many respects of our elder statesmen. But one or two men of outstanding ability do not make a modern bank. The devolution essential to the successful and progressive administration of all big concerns demands a larger percentage of really first class men than are needed in smaller concerns of the same nature. So in banking the higher administration needs the assistance of an adequate staff of well trained and educated men capable of carrying out faithfully and intelligently the policy decided upon at the centre of affairs."

(November, 1922, issue of "The Bankers', Insurance Managers', and Agents' Magazine", pages 644-645.)

13. The imperative need of trained bankers is emphasised in the following quotation:—

"The use of the term 'trained banker' is deliberate, for it is on the lines of definite professional education and status that future reorganisation must develop. . . . The man required for the future will have to not merely an expert accountant with a knowledge of commercial law *plus* an acquaintance with such questions as gold reserves, and foreign languages, but he must be a man of sound and wide education, who is able to understand political and economic questions, he must have an acquaintance with scientific developments and appreciate the psychological outlook of the public towards the application of science to every day life.........."

"Is it possible to obtain a supply of such men? It is quite certain the old system cannot produce them, but there is no reason why conscious efforts should not produce a sufficiency of men who will approach this ideal. . . . Doctors, Lawyers, schoolmasters and clergy have to pass qualifying examinations, why not bankers?".

(January, 1920, issue of "The Bankers', Insurance Managers' and Agents' Magazine". 'Banker or Bank clerk'.)

14. Mr. J. G. Holt suggests a qualifying examination as a condition of entering higher grades of bank service:—

"In other walks of business life, where the qualities of administration and judgment, so necessary in the banking world are required, definite schemes of training are adopted. If a man wishes to become a solicitor of a chartered accountant, he has to sacrifice his time in preparation to pass difficult and comprehensive examinations. Only when he has proved himself to be the possessor of sufficient theoretical knowledge to understand the inner meanings of his future business operations, is he allowed to practice."

(August, 1921, issue of "The Bankers', Insurance Managers', and Agents' Magazine": 'Staff Organisation'.)

15. Mr. F. E. Steels exposes the absurdity of the idea that a knowledge of the theory of banking is no good, and is concerned to find that people with such notions are not disappearing faster than they do:—

"Their motto is 'an ounce of practice is worth a ton of theory'. What was good enough for their predecessors is good enough for them. They despise theory and distrust books as an aid to banking. . . . Men of this school, it may be at once admitted are much less numerous than they were. They are dying out, but, like Charles the Second, they are 'an unconscionable' time in dying. . . .".

(January, 1926, issue of "The Bankers', Insurance Managers' and Agents' Magazine": 'Practice and theory of Banking'.)

16. Regarding the need for theoretical training in Banking, Mr. F. A. Willman observes as follows in his book on "Banking as a Career":—

"The old method of training by mere observation and experience is in banking, as in many other spheres, inadequate for the present day, and while it is not desired in any way to discourage clerks from learning by studying the practices of others, it cannot be too strongly emphasised that professional education includes theory as well as practice. Banking is in no way a self-contained profession limited to the cashing of cheques or the receiving of deposits. It touches upon matters of law, of commercial practice, of economies and of science, and only by obtaining a knowledge of these, can the bank official hope to perform his duties satisfactorily."

"The banks themselves encourage such efforts. . . . What is still more important, the present tendency in making appointments to positions of responsibility is definitely favourable to the trained man, so that all who seriously desire to make banking their career should give to the matter of professional education very careful thought."

(Banking as a Career by F. A. Willman, pages 67-68.)

17. Mr. J. F. Cade, proposes that higher and executive posts on bank staffs should be the reward of a high professional examination:—

> "Perhaps, however, the crux of the whole position is the question of securing the charter, and if this were obtained, possibly none of the suggestions discussed would be called for, as the status of banking will at once be raised and Associates of the Chartered Institute of Bankers would be put on a level with members of the other professions. A high professional Examination would be established, and members of the banks' staffs who received the diploma or degree (for which perhaps 6 years of service will also be necessary) would automatically be graded in a kind of first division, similar to that of the Civil Service scheme. These men will fill the positions of chief security clerk, chief cashier, accountant, assistant manager, and most of the senior positions."

(April-May, 1926, issue of "The Banker".)

No. 10.

Letter from the Secretary, Millowners' Association, Bombay, to the Secretary, The Indian Central Banking Enquiry Committee, No. 696/63, dated the 1st November 1930.

On receipt of your letter, I sent out a special enquiry to all mills in Bombay, as a result of which I am in a position to supply the following statement:—

There are 81 spinning and weaving Companies in Bombay with a paid-up Capital of Rs. 14·75 crores. Of these 81 mills, 7 have been closed for a considerable period. Out of the remaining 74, 64 mills with a paid-up Capital of Rs. 12·14 crores submitted complete information which shows that the debenture loans totalled Rs. 2·38 crores of which Rs. 45·5 lakhs had been loaned by Managing Agents; Rs. 52·7 lakhs had been loaned by Banks; and Rs. 139·5 lakhs had been loaned by the Public. In addition, the companies had Rs. 5·32 crores on loan from the Managing Agent; Rs. 2·26 crores on loan from Banks; and Rs. 2·73 crores on loan from the public in the form of deposits.

The information given above relates to the position as on October 1st, 1930.

No. 11.

Letter from the Honorary Secretary and Treasurer, The Indian Society of Accountants and Auditors, Bombay, to the Secretary, The Indian Central Banking Enquiry Committee, dated the 6th November 1930.

In reply to your letter No. 2694, dated 6th October 1930, I enclose herewith a letter of to-day's date addressed by me on behalf of my Council to the Chairman and Members of your Committee, and shall feel much obliged if you will place it before the Committee.

Letter from the Honorary Secretary and Treasurers, The Indian Society of Accountants and Auditors, Bombay, to the Chairman and Members of the Indian Central Banking Enquiry Committee, dated the 6th November 1930.

With reference to your Secretary's letter No. 2694, dated 6th October 1930, asking for information on certain questions arising from the oral evidence given by the delegates of this Society before your Committee on the 24th September 1930, I am directed to state as under.

2. With regard to clause (1) of the first paragraph of your said letter, we understand that in Germany the German law does not recognise bankruptcy proceedings outside Germany and in no case would it recognise a voluntary liquidation. In a recent case brought to our notice of voluntary liquidation of a well-known company in Bombay, which had some creditors and a debtor in Germany, the liquidator could not recover the full amount due to the company by the German debtor as the warrants of distress taken out in Germany after the commencement of the liquidation by the German creditors of the company against the assets of the company in Germany (*i.e.*, the debt due to the company by the German debtor aforesaid) were said to be effective under the German law. It may be noted that under the law in force in British India (as in England) an attachment or any execution proceedings against the property of a company in liquidation would not be allowed, but all creditors would have to submit their claims to the liquidator of the company for payment ratably. However, under the German law, which we understand is called "Bremen Rule 10," German nationals are protected against foreign bankruptcy or liquidation proceedings, and foreign executions levied by non-German creditors against the property of German debtors are ineffective till the dues of all German debtors of the company are met in full. We tried to get further official information of this Bremen Rule 10 from the German Consul in Bombay but we regret that that official has expressed his inability to give any information regarding this particular Rule. He, however, informs us that to the best of his knowledge he believes that the laws of Germany and of some other European countries have some such similar provisions as mentioned above in order to safeguard the interests of their respective nationals against bankruptcies and liquidations of foreign individuals or concerns. If your Committee desires further authentic information regarding the German law in the matter we would suggest that you may write officially to the British Consul at Hamburg who may perhaps be able to help you in the matter.

3. In connection with the point raised by Sir Purshotamdas Thakurdas, Vice-Chairman of your Committee, regarding the scale of fees of auditors for auditing the accounts of banks in India, I am directed by my Council to state that such fees vary according to the circumstances of each individual case. However, it may be estimated that the audit fee charged by an average qualified auditor recognised under the Indian laws for auditing the accounts of a small branch of a bank in the country, which may take about a day or two, would come to about Rs. 50 to Rs. 100 for the principal *plus* remuneration for his assistants, which per each assistant may be computed at nearly one-third of the aforesaid professional fee of the principal himself. There may be in addition, some out-of-pocket expenses for travelling charges, etc. The fee for auditing the accounts of larger banking institutions is likely to be proportionately more. As mentioned before, your Committee will appreciate that these are only rough

estimates for your guidance and that various other circumstances including the question of supply and demand will have to be taken into consideration in finally deciding the audit fee of a concern including a bank.

No. 12.

Supplementary answers by Mr. K. M. MacDonald, Managing Governor, Imperial Bank of India.

What is your experience in regard to the question as to whether the branches of the Imperial Bank of India draw from their Head Offices or the Head Offices are supplied with funds by their branches, considering the position throughout the whole year?—The proportion of trade advances to deposits is higher at the Local Head Offices than at branches and, to this extent it may be said that the Local Head Offices are supplied with funds by their branches. The difference is less marked in the Madras Presidency where branch advances have been more developed and is likely to decrease in the Bengal and Bombay Circles as time passes. This phenomenon does not mean, however, that any part of India is prejudiced by a withdrawal of funds for use elsewhere by reason of the operations of the Bank, for a considerable part of the advances made in the large centres is used in the mofussil and the fact that, wherever the Bank has been established, money rates are lower than before is an indication that money is mobilised in the hands of the Bank for the benefit of the country as a whole—in other words money is rendered more fluid and flows more readily to where it is required. The advantages of this to borrower and depositor are obvious and it is unfortunate that the provincial critics of this movement of funds so frequently ignore the interests of the depositor.

It is said that none of the organised banking institutions of the country gives any direct assistance to the agriculturists and that the Imperial Bank of India has recently begun at a few centres to finance big landlords on personal security with sureties on the security of the produce or of gold. Would you kindly give the Committee some fuller details of this recent policy of the Imperial Bank, the provinces where it has been introduced and the measure of success it has attained?—In reply to your request for some comparative figures showing the extent of the Imperial Bank's assistance to agriculturists in recent years, I have to say that the Bank's assistance to agriculturists is by way of both direct and indirect advances and it is impossible to analyse them with any degree of accuracy. As a general statement it may be said that in the majority of cases the assistance is indirect. The Bank is not organised to deal direct with the small cultivator nor is it desirable that it should be organised to do so.

The Bombay Provincial Banking Committee have made certain observations in paragraph 236 of their Report in regard to the curtailment of the cash credit facilities given to the Provincial Co-operative Bank by the Imperial Bank and suggested that the authorities of the Imperial Bank should be requested to reconsider their objections in the light of their observations. Would you kindly consider their suggestion and favour the Committee with your views?—The Bombay Provincial Banking Enquiry Committee appears to have overlooked the fact that the document in question is not free from special conditions—*vide* the prohibitory clause

against subsequent charges contained in paragraph 6. The decision made by us was come to after consideration of legal advice and we are of the opinion that the proper course is for the Bombay Provincial Co-operative Bank to amend their Debenture Trust Deeds in such a way as to cause the security offered to us to rank prior to that created under the deeds.

The Bengal Provincial Banking Enquiry Committee have reported as follows:—

"In the mofussil it has been stated that the branches of the Imperial Bank evince a lack of sympathy in their attitude towards the indigenous bankers. Evidence has been received that the local branch of the Imperial Bank refuses to rediscount hundis bearing the endorsements of even the firms of highest repute in Dacca town. A complaint has also been made that the Imperial Bank does not afford any special facility a consideration even to the old, reliable and substantial Indian banking firms. In one case a cheque for a large amount was dishonoured because it exceeded the amount lying to the credit of the firm by a paltry sum, although the cheque was drawn by a firm which deals with the Bank in lakhs." Have you any observations to make on this statement?—The statements are of a very general nature and are not in my opinion borne out by facts. The Bank is anxious to extend its business in every possible way, including its dealings with indigenous bankers, and that being so it is clear that a sympathetic attitude is our best policy. In my experience most difficulties which arise are due more to the conservative mentality of the indigenous banker than to lack of sympathy on our part. As a class, it has been said that they are reluctant to conform to the methods of business under which Joint Stock Banking is carried on.

It is said that at present in Burma the rate charged by banks is about 2 to 3 per cent. above the Bank rate in the busy season and about 1½ to 2 per cent. above the Bank rate at other times. As the Bank rate itself is high in the busy season, the Marwaris, Mooltanis and Gujeratis send their bills to Calcutta, Madras and Bombay to be discounted at better rates. The Burma Committee have pointed out that the Chetties cannot do this because the Imperial Bank at Madras charges 1½ to 2 per cent. more than it charges Marwaris for discounting exactly similar hundis. Would you kindly tell the Committee whether there is any justification in this complaint and if so, how it can be remedied?—In reply to your enquiry whether the Bank charges higher rates to Chettiars in Rangoon than in Madras, I have to say that the rates for loans to Chettiars are, higher in Rangoon than in Madras for the reasons already stated. With reference to the statement that "the Imperial Bank at Madras charges the Chettiars 1½ to 2 per cent. more than it charges Marwaris for discount of exactly similar hundis", I may point out that it is not the practice of the Bank to discount Burma bills for Marwaris or others at its offices outside Burma. Question 29 does not therefore appear to be based on facts.

I enclose a copy of a note on the Acceptance Credit and its application to trade in India by Sir Basil Blackett which I understand has been published in the Journal of the Indian Institute of Bankers. Would you kindly favour the Committee with your views on the practicability of the proposals made therein and what steps would be necessary to carry out these proposals?—Until India has a true Central Bank and an organisation of merchant bankers and acceptance houses the use of the acceptance credit there will continue to be on its present limited scale. So far as I know, in inland banking the use is at present confined to cases where the

Bank's customer asks the Bank to authorise a third party to buy the bills of a fourth party drawn on the customer. The use is on a small scale for the following reasons amongst others:—

(a) the practical non-existence of documents of title such as warehouse warrants and Railway receipts in suitable form,

(b) the efficiency of the cash credit system which is much greater than would appear from Sir Basil Blackett's remarks,

(c) the high stamp duty on bills,

(d) the difficulty of introducing a form of bill which would be accepted throughout India.

If (a), (c) and (d) can be overcome and a true Central Bank be brought into existence it is possible that the facilities so provided would induce a wider use of the system.

Please give us details of Indian and European recruitment of the official class during the last few years for each circle.

The number of European Officers and Indian Officers recruited since 1925 in each Circle.

	Bengal Circle.		Bombay Circle.		Madras Circle.	
	Europeans.	Indians.	Europeans.	Indians.	Europeans.	Indians.
1925 . .	16	11	9	1	7	2
1926 . .	4	2	1	..	1	..
1927 . .	1	1	2	..	..	1
1928 .	1	..	4	1	3	4
1929 . .	1	3	2	2	3	2
1930 . .	..	1	..	..	..	—

Please supply the figures of share capital held at Bombay, Calcutta and Madras (also at Rangoon, if it is a separate centre) where the Share Register is kept.

Particulars of the Bank's Share Capital as on 30th June 1930.

	Rs.
Calcutta Register	2,36,98,000
Bombay Register	2,57,81,125
Madras Register	67,70,875
	5,62,50,000

What portion of the share capital is held by Indians and what portion, if any, by non-Indians?

	Rs.
Share capital held by Indians as on 17th May 1930	2,78,08,250
Share capital held by non-Indians as on 17th May 1930	2,84,41,750
	5,62,50,000

At how many Branches is the first man an Indian? At how many Branches there are more than one Englishman in the staff?

(a) Number of branches at which the first man is an Indian 68

(b) Number of branches at which there are more than one European on the staff 23

On what basis are advances made to the indigenous Bankers, Shroffs, Multanis and Chetties with regard to—

(i) clean overdrafts,

(ii) discounting of Hundies, *i.e.*, assuming that the indigenous Banker is worth Rs. 5,00,000 himself and is operating with a working capital of another Rs. 2,00,000 from the public, to what extent would clean advance be given to him and what would be the limit of discount for Hundis drawn or accepted by him?—As I stated before the Committee there are many factors to be considered besides a party's worth when a limit of credit is fixed for him. I quote four instances from the books of the Imperial Bank of limits of clean credit granted to indigenous bankers:—

Party's net estimated means. Rs.	Limit of clean credit granted. Rs.
3 lacs.	3 lacs.
4/5 lacs.	8 lacs.
5/6 lacs.	1½ lacs.
4 lacs.	3 lacs.

Answer to Question No. 8448 *.

Result of enquiries into the instances placed before the Committee:—

(1) The information placed before the Committee is not correct. The Bank's business relations with the party in question were regulated by considerations unconnected with his association with the Andhra Bank.

(2) The inference is wrong. Overdraft facilities to Banks (as distinct from demand loans) are granted only in special circumstances and are not placed at the borrowers' disposal at any office. The Andhra Bank was offered loans at Cocanada on the same terms as these facilities are granted to other banks.

(3) This statement is correct. The excess charges were made in error and have been refunded.

(4) I am informed that this is a mis-statement of fact. Payment of cheques drawn on the Andhra Bank at Cocanada was not made on presentation and a collection charge was therefore made by us on one occasion, since when payment has been received on presentation.

*References are to questions in the volume of Oral Evidence.

Answer to Question No. 8440.

I have considered this question and am strongly against any interference with the free flow of bankers' funds between different countries. Interference with economic forces must in this, as in other instances, react in ways which largely defeat the purpose aimed at and cause hardship to third parties. In my view the interests of depositors as well as those of borrowers must be considered. If banks cannot find sufficient suitable investments in India for the potential deposit money they must reduce deposit rates or invest money elsewhere. The higher the rates paid to depositors the more money they have to spend and the borrowing classes, *viz*., traders and producers, benefit thereby. Further as stated elsewhere I do not consider that trade or industry in India is in any way starved for finance. In my experience failures have been caused by bad management and not lack of funds. India has probably benefited more than most countries by the use of foreign capital and, if freedom in the movement of capital is interfered with, foreign capital will not be so readily a ailable.

3. On reading my oral answers to the questions on—

(*a*) audit of co-operative banks, and

(*b*) the appointment of an All-India Committee of Enquiry

I feel I have not made my views clear and I will therefore amplify my answers.

(*a*) The solvency of the co-operative banks depends on the solvency of the societies, *i.e.*, the safety of its investments in the societies. So long as a bank's deposits continue to increase it need not realise its loans to societies; it is only when the deposits begin to fall that such realisation will be necessary. The growing deposits of the banks have enabled them to permit extensions, renewals of loans, etc., to societies without inconvenience and many of these loans are now merely block loans. Even when repayments have been made the amounts have often been book adjusted or reloaned at short intervals and the repayments do not represent genuine decreases in debt.

The Act lays down that "audit shall include an examination of overdue debts and, a valuation of the assets and liabilities of the society" and this clearly indicates that more than an arithmetical audit was intended. It is obvious also that when loans are allowed to run on from year to year, a periodical valuation of the value of the security, *e.g.*, the worth of the debtors and sureties, the value of land mortgaged and the value of the unlimited liability, is necessary. In cases where this is not done, and I have reason to believe they largely predominate, the audit does not comply with the Act nor with necessary business precautions and unless the auditor of a central bank satisfies himself that the auditors of the village societies, to which the bank has lent money, have carried out this duty, the audit of the central banks is a defective one.

Paragraphs 19, 70 and 73 of the report of the Committee on Co-operation in Burma and paragraph 46 of the report of the Committee on Co-operation in Madras make it clear to me that the audit in these provinces has been defective in the above as well as in many other respects.

(*b*) As I stated in my oral answers I had not read the portion of the report of the Royal Commission on Agriculture regarding co-operative societies. After reference to the report it is clear to me however that the members did not go very deeply into the business aspects of the question, and I revert to my original opinion that it is now necessary to appoint

an all-India Committee on the lines of the Maclagan Committee whose duties shall be confined to co-operative credit. They should review the progress of the movement since the Maclagan report and should report on how far the Maclagan Committee's recommendations have been followed and what variations from their recommendations appear advisable in the light of subsequent events. They should also make recommendations on the very important matter of the financial control of the movement after consideration of the practice existent in other countries.

With reference to the outstanding items of information required by the Committee from the Imperial Bank the position is as follows:—

Q.-8022—Normally the charge is the same for collection of bills received from banks whether the proceeds are paid before or after realisation and the matter of interest is usually balanced by extra work.

Q.-8039—Regret the information cannot be given.

Q.-8079, Q.-8099, Q,-8464 } The information is being obtained and will be submitted in the near future.

Q.-8545—Regret the information cannot be collected.

Q.-8677—Nothing to add to the reply to question 8493.

IMPERIAL BANK OF INDIA.

DEPOSITS AND ADVANCES AS AT THE END OF MARCH 1930.

Deposits.

	Rs.	Percentage of total.
Indian	40,17 lacs.	79
European	10,53 ,,	21
	50,70 ,,	

Advances.

	Rs.	Percentage of total.
Indian	32,77 lacs.	73
European	12,35 ,,	27
	45,12 ,,	

Banks.*

	Indian Banks. Rs.	Other Banks. Rs.
Deposits	1,35 lacs.	2,25 lacs.
Advances	2,39 ,,	65 ,,

* These figures are included in the totals of "Deposits" and "Advances" in the preceding tables.

IMPERIAL BANK OF INDIA.

As at the end of March 1930.

Deposits.

[In thousands of rupees.]

	Current Accounts.				Fixed Deposits.			
	European.	Indian.	Banks.	Total.	European.	Indian.	Banks.	Total.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bengal Circle	3,14,64	8,43,95	1,18,31	12,76,90	1,30,93	10,38,44	1,02	11,70,39
Bombay Circle	69,20	5,76,97	1,01,85	7,48,03	33,43	7,81,40	26,45	8,41,28
Madras Circle	1,80,53	3,11,43	91,94	5,83,88	99,47	3,29,67	20,10	4,49,24
Total	5,64,37	17,32,34	3,12,10	26,08,81	2,63,83	21,49,51	47,57	24,60,91

	Current Accounts and Fixed Deposits.			
	European.	Indian.	Banks.	Total.
	Rs.	Rs.	Rs.	Rs.
Bengal Circle	4,45,57	18,82,39	1,19,33	24,47,29
Bombay Circle	1,02,64	13,58,37	1,28,30	15,89,31
Madras Circle	2,79,90	6,41,09	1,12,04	10,33,13
Total	8,28,20	38,81,85	3,59,67	50,69,72

Advances.

	Bills.				Cash Credit.				Overdrafts.				Loans.			
	European.	Indian.	Banks.	Total.	European.	Indian.	Banks.	Total.	European.	Indian.	Banks.	Total.	European.	Indian.	Banks.	Total.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bengal Circle	28,65	1,23,44	*Nil.*	1,52,09	4,05,78	2,95,57	18,37	7,19,72	1,24,59	4,10,00	31,62	5,66,21	11,60	1,07,31	71,66	1,90,57
Bombay Circle	79	1,44,32	40,00	1,85,11	3,51,57	6,13,55	49,51	10,14,63	55,54	1,84,25	35,21	2,75,00	5,74	3,12,88	1,61	3,20,23
Madras Circle	8,35	2,40,94	7	2,49,36	1,06,14	1,15,97	1,44	2,23,55	60,36	1,20,23	52,67	2,33,56	10,82	3,69,83	1,66	3,82,31
Total .	37,79	5,08,70	40,07	5,86,56	8,63,49	10,25,09	69,32	19,57,90	2,40,49	7,14,48	1,19,80	10,74,77	28,16	7,90,02	74,93	8,93,11

	Bills, Cash Credits, Overdrafts and Loans.			
	European.	Indian.	Banks.	Total.
	Rs.	Rs.	Rs.	Rs.
Bengal Circle	5,70,62	9,36,32	1,21,65	16,28,59
Bombay Circle	4,13,64	12,55,00	1,26,33	17,94,97
Madras Circle	1,85,67	8,46,97	56,14	10,88,78
Total .	11,69,93	30,38,29	3,04,12	45,12,34

CALCUTTA;
The 3rd December 1930.

List of branches opened by the Imperial Bank of India at centres where a Branch of an Indian Joint Stock Bank already existed.

Ambala.
Amritsar.
Assansol.
Bereilly.
Bhagalpur.
Chapra.
Darbhanga.
Darjeeling.
Dehra Dun.
Dhanbad.
Erode.
Etawah.
Ferozepore.
Fyzabad.
Gaya.
Gojra.
Gorakhpur.
Gujranwala.
Hathras.
Jhansi.
Jubbulpore.
Jullundur.
Kumbakonam.
Ludhiana.
Lyallpur.
Meerut.
Mirzapur.
Montgomery.
Moradabad.
Multan.
Mussoorie.
Muttra.
Muzaffarnagar.
Muzaffarpur.
Mymensing.
Naini Tal.
Nowshera.
Peshawar.
Purnea.
Rangpur.
Rawalpindi.
Saharanpur.
Sargodha.
Sialkot.
Sitapur.
Srinagar.
Tinnevelly.
Tirupur.
Trichur.
Vellore.

Total Bankers' Balances with the Imperial Bank of India.

(In lacs.)

Date.	Exchange Banks.	Indian Joint Stock Banks.
	Rs.	Rs.
31st March 1928	3,20	81
30th September 1928	3,71	1,12
31st March 1929	3,28	81
30th September 1929	2,02	90
31st March 1930	1,88	81
30th September 1930	1,88	1,05

List of places where the Imperial Bank of India has recognised agents for collection business.

Almorah.
Amalner.
Arrah.
Badulla.
Bagalkot.
Bahawalpore.
Bahraich.
Bannu.
Baramati.
Barnala.
Baroda.
Bassi.
Bhatinda.
Bhusawal.
Bijapur
Bulsar.
Campbellpore.
Chalisgaon.
Chakrata.
Chandausi.
Channapatna.
Chhindwara.
Chitaldroog.
Coonoor.
Dabhoi.
Daltonganj.
Davangere.
Dehra Ghazi Khan.
Dehra Ismail Khan.
Dharwar.
Dhuri.
Dodballapore.
Dwarka.
Galle.
Giridih.
Gonda.
Gujrat.
Gurdaspur.
Gurgaon.
Hafizabad.
Hardoi,
Harihar.
Hassan.
Hatton.
Haveri.
Hazaribagh.
Hoshiarpur.
Islampur.
Jammu.
Jamnagar.
Jhelum.
Kalol.
Kandy.
Kapurthala.
Karjan.
Karnal.
Khed.
Kohat.
Kolar.
Kolhapur.
Kollegal.
Lahore Cantt.
Lonavala.
Mardan.
Maymyo.
Mehsana.
Mianwali.
Muzaffargarh.
Mysore.
Narowal.
Navsari.
Newara Eliya.
Oorgaun.
Palwal
Pandharpur.
Panjim,
Pasrur.
Patan.
Patiala.
Pendra Road.
Petlad.
Phagwara.
Pilibhit.
Pondicherry.
Port Okha.
Purulia.
Rae Bareilly.
Rander.
Ranchi.
Ranibenur.
Ranikhet.
Razmuk.
Rewari.
Rohtak.
Roorkee.
Sahjahanpur.
Samastipur.
Sangli.
Sangrur.
Satara.
Satna.
Saugor.
Shahada.
Sheikhpura.
Shikarpur.
Shimoga.
Sidhpur.
Sonepat.
Tasgaon.
Tavoy.
Tumkur.
Unao.
Viramgam.
Wazirabad.

List of Admissions to Clearing Houses in India and Burma since September 1927.

Amritsar.—Clearing House started in July 1928.

Members are:—

Allahabad Bank, Ltd.
Central Bank of India, Ltd.
Chartered Bank of India, Australia and China.
Imperial Bank of India.
Lloyds Bank, Ltd.
National Bank of India, Ltd.
Punjab and Sind Bank, Ltd.
Punjab National Bank, Ltd.

Bombay.—Bombay Provincial Co-operative Bank, Ltd.

Cawnpore.—Peoples Bank of Northern India, Ltd.

Delhi.—Peoples Bank of Northern India, Ltd., Imperial Bank of India.

New Delhi.—Lloyds Bank, Ltd., New Delhi.

Karachi.—Peoples Bank of Northern India, Ltd.

Lahore.—Lloyds Bank, Ltd., Peoples Bank of Northern India, Ltd.

Madras.—Bank of Hindustan, Ltd. (in October 1930).

Applications for Admission rejected since September 1927

Madras.—The Bank of Hindustan, Ltd., applied in July 1929 but the majority of the members considered the application premature as the Bank had commenced business only two months before. This Bank has recently been admitted to membership.

Rangoon.—Dawsons Bank Ltd., have been refused membership by the clearing banks, who did not consider it was necessary.

VIEWS EXPRESSED BY SIR OSBORNE A. SMITH, ON THE PROPOSED ESTABLISHMENT OF A RESERVE BANK.

It seems to me to be axiomatic that the control of Indian Currency, Credit, and Government's Exchange operations would ordinarily benefit if under one authority, but what sane authority would assume responsibility of these operations in such times as we are passing through and with a large proportion of the country's reserves in unstable silver! Therefore, before a Reserve Bank comes into being I consider it essential that substantial gold and sterling security reserves should be provided. Adequate gold is hoarded in the country and Indians should have sufficient faith in their country to make such gold function by lending it (at good interest) to Government for Reserve Bank purposes. If we have no confidence in our country how can we expect lending countries to open their purses to us?

The public have become saturated with the idea that a Reserve Bank is a Panacea for all our ills and difficulties and, while I heartily subscribe to the benefits that are possible, I must emphasize the necessity for its establishment on cautious sound lines, and on a firm unshakable reserve basis.

The recent catastrophic fall in the value of silver, coupled with the universal trade depression and aggravated by loss of confidence, causing a flight of capital from the rupee, would have had dire effect on a Reserve Bank constituted on the basis contemplated in 1927.

The maintenance of any fixed ratio in the foregoing circumstances, bearing in mind India's fixed heavy sterling remittance programme on Government account, would be arduous in the extreme. The depreciation of a country's currency is a very terrible thing causing untold misery and realized only to an extent in India by those who have hoarded silver. The present exchange difficulties of, for instance, Australia, Brazil and the Argentine, and the past currency calamities in Russia, Germany, Austria and other European countries, should be food for thought for those who advocate a break from established statutory values. To dissociate Government from the almost general suspicion of manipulation and selfish management of currency, I would advocate (pending the establishment of a Reserve Bank which could not function for 2 or 3 years) as educational and a step forward towards the marriage of currency and credit control, the formation of a Currency Board of say 3 Members. In making this recommendation I must give expression to my opinion that the resolute co-operation of Government and the Imperial Bank has resulted in our financial position being at least as stable as most similarly situated primary producing countries; and has left little cause for genuine complaint.

The capital of the Reserve Bank should be Share, not Debenture, capital and a gold from hoards subscription would do much to restore confidence and arrest the flight from the rupee.

My idea follows the line of making, if feasible, the Imperial Bank the Central authority. This would necessitate (for a major reason explained hereafter) shedding its trading activities to preferably reconstituted Presidency Banks. Admittedly this reconstitution would be a complex problem, but not insurmountable and of course subject to the consent of Imperial Bank shareholders. The Presidency Banks, which in the past were highly popular and with their numerous branches throughout India would act as Agents for the Central (Imperial) Bank.

I consider it absolutely essential to the control of credit that the Exchange and other Member Banks must keep an adequate substantial percentage of their call and Time liabilities with the Reserve Bank and this is a primary reason why the Central Institution should be debarred from doing ordinary business. An added advantage in constituting the Imperial Bank the Reserve Institution is that a ready made commercial directorate comprising the foremost brains, both Indian and European, and subject to shareholders' sanction would be available, thus removing the contentious rock on which the previous Bill crashed. The Board would be completed by Government's nominations to represent Sectional interests.

The question of Bill encouragement in substitution for the present popular cash credit system, and the creation of accredited Discount Houses can be considered at a later stage. Many obstacles have to be overcome, not the least of which are vernacular difficulties. Control of credit in this country will, seasonally, present difficulties, as the usual remedy, Open Market Operation or the buying and selling of securities, is at times impossible (the present for instance).

In regard to the alternative to my recommendations, *viz.*, the creation of an entirely new Reserve Bank I take it the Imperial Bank would act as Agents throughout India for such Reserve Bank and that all the restrictions under its Act which it at present labours under would be removed, and the Imperial would become an active competitor with the Exchange Banks. I consider it would be expensive and superfluous to create a new Institution. As the big centres at least are already over-banked, and further competition would seriously embarrass existing Indian Institutions, every consideration should be given to unscrambling the Imperial Bank as I have suggested.

REPLIES BY SIR OSBORNE SMITH TO SPECIAL QUESTIONS.

What is your view with regard to the competition of a Bank aided in any manner by State funds, or deriving higher status on account of its association with Government with private and joint stock enterprise in banking in India?—My views would vary according to the circumstances of individual cases. A Bank that has the confidence of Government to the extent of attracting its balances naturally enjoys added prestige, but Governments usually exact (and this applies particularly to India) a full return in service for the value of minimum balances. At seasonal times Government balances are largely in excess of the compensating minimum, but

again at such times, such balances are useless in India because they cannot be invested or profitably used. Generally speaking however a Reserve Bank controlling currency should not compete with Trading Banks or risk such business.

If it was decided that the Reserve Bank should be a separate institution, is there any need for a separate Imperial Bank of India Act? Is there any objection to the Imperial Bank becoming an ordinary Joint Stock Bank under the Indian Companies Act on the same basis as any other Joint Stock Bank in this country?—I do not diverge from my view that the Imperial Bank should become the Reserve Bank. Should however a separate Reserve Bank be established it would be necessary for it to have agencies in the various centres, as it would be wholly unprofitable and an iniquitous charge on the Central Institution to open sufficient branches for its purpose. The sole institution in India with sufficient branches adequately perform agency duties is the Imperial Bank and, as such duties would entail the management of Currency Chests, Treasuries, etc the Imperial Bank Act suitably amended would be advisable, indeed necessary as the Bank must have a status and responsibility apart from other banks.

When the Imperial Bank thus ceases to have any special privileges or special obligations, if, in the interests of the country it is considered desirable that they should engage on any one of the following lines of work, is there any special difficulty in making a special contract with the Imperial Bank, by which they will engage on this work along lines approved by the Government and they would be entitled to remuneration, compensation or subsidy for this service:

(a) Dealing in foreign exchange and discounting of foreign bills both export and import,

(b) Lending out to industrial concerns for (i) initial capital, (ii) block capital, (iii) working capital against industrial security and for periods suitable for the industry.

I do not follow whether you mean "dealings in the capacity as agents for the Reserve Bank or Government" or whether the Imperial Bank would shoulder the risk attendant to such transactions and use its own funds for the purpose. If it is to use its own funds the Imperial Bank could only operate to the extent of available resources. However you probably have in view operations on behalf of Government *in an agency capacity* as you mention *"lines approved by Government"* as I cannot conceive any sound banker allowing dictation by any outside body, Government or otherwise, in the conduct of his own business. If this is so:

(a) no difficulty.

(b) (i) and (ii). I am wholly averse to a Trading (Commercial) Bank (and of course a Reserve Institution) supplying money for these purposes, although I am aware such business is done by certain Continental Banks who use Debenture capital and not deposits from the public for the purpose of such business.

(b) (iii) If this means advances pending the marketing of produce or industrial goods—yes.

Can you tell us why the rates for the discount of first class trade bills in India are the same, or higher than the Bank rate, whereas they are very much lower than the Bank rate in other countries? What remedy would you suggest for the establishment of the bill market in India? Do you see any inherent difficulties in the Indian situation preventing the establishment and growth of investment trusts to establish and help both the investors and Banks as providing intermediate links and the division of the risks?—In most sound countries the currency is managed, and I concur in such a policy, as there is no practical alternative. The Bank Rate is in these countries at times ineffective, that is, the official rate is out of touch with the market rate. In such circumstances it may pay Banks to discount below the official rate. The Bank Rate has a different meaning in various countries. For instance in England it is the minimum rate at which the Bank of England will discount approved bills or grant loans on approved security for the money market (other Banks and Discount Houses) but for its private constituents it may discount at market rate which as I have pointed out may be below the official rate. In India the Bank Rate is the rate at which the Imperial Bank will grant loans against Government Securities which are obviously at least an equally acceptable security as first class bills, the rate for which may vary according to the class of bill, or according to whether the money market conforms to or is out of touch with the official rate. It must be remembered that agriculture is overwhelmingly India's chief industry and bills with fixed dates of maturity are unsuitable for the ryot or produce dealer—it will therefore always be difficult to secure bill substitution for loans and cash credits in India.

Development must be on the lines of rediscounts, and abolition of the present heavy stamp duty on bills will assist a bill market. Discount Houses (which are more or less essential to a stabilised bill market) might be built up from reliable native bankers of unsullied reputation and with substantial capital, and upon a deposit of a cash guarantee.

There are no inherent difficulties in the establishment of Investment Trusts in India but the success of such depend on economical efficient management, and control by a Board of the highest integrity.

What is your view with regard to the nineteen foreign Banks, which are working not only for foreign exchange finance, but for doing banking business generally? Did their operations and existence menace the Presidency Banks and force them into an amalgamation? Is it true that Lloyds and other institutions are at present cutting into the business of the Imperial Bank in certain places? What is the reason for prohibiting the Imperial Bank from taking deposits in London? Should such restrictions continue with regard to the Imperial Bank and with regard to the Reserve Bank? Would you allow the deposits in India from Indian money to swell the working capital of foreign Banks established in India? Would you advocate the receipts from postal savings bank and from post office cash certificates to remain with the Reserve Bank for being used for the finance of trade and industry rather than for being merged in the general balances of Government as is the case now?—Banks are for the benefit of the public and the more banks there are the greater facilities the public will enjoy. There should be no discrimination against sound institutions merely because they

are non-Indian, the sole qualification should be stability. The amalgamation of the Presidency Banks was in no way due to the competition of the Exchange Banks. No doubt other institutions are freely competing with the Imperial Bank.

The prohibition of acceptance of deposits in London is llied to the prohibition of exchange business and its continuance or no should be similarly related.

Yes, there should be no interference with the deposit of Indian money with foreign banks in India. I am strongly against any interference in matters of this sort as people should have the right to invest their money as they wish: the more banks there are that compete for their money, the greater facilities the public will enjoy.

The right of deciding the method of utilisation of postal sav gs bank balances and post office cash certificates must rest with Government who do the work and guarantee interest and repayment.

No. 13.

COPY OF LETTER No. 3845-T., DATED THE 2ND APRIL 1931, FROM THE DEPUTY DIRECTOR, RAILWAY BOARD, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE.

Warehouses at railway stations.

I am directed to refer to the discussion which the Indian Central Banking Enquiry Committee had with Mr. Hannay, Member, Railway Board and Mr. D'Souza, Officer on Special Duty with the Railway Board, on the 30th March 1931, during the course of which the Committee asked for:—

(*a*) an estimate of the cost of providing and working railway warehouses at three stations and of the probable charge for storage therein.

(*b*) the views of the Railway Board regarding allowing private enterprise to put up warehouses close to railway stations.

As regards (*a*), I am to say that the estimate is being prepared, and the Railway Board hope to be in a position to communicate to the Committee the figures required during the course of the next few days.

2. In connection with (*b*) above, I am to say that the Railway Board have also considered the question of railway administrations providing and working warehouses. Any proposals that the Committee may put forward on this point will, as the Committee no doubt realise, necessitate a detailed investigation so that the full implications of the arrangement may be clear, but their preliminary consideration of this issue leads them to think that the arrangement would not be practicable. On the main point, however, on which the Railway Board's views have in the meantime been invited, namely, the question of allowing private enterprise to provide and work warehouses, the Board recognise that at the present stage it is not possible for the Committee to indicate in detail what the working arrangements would be for the marketing of imports and exports when these warehouses are

functioning. If, however, there is a definite demand from the trade for the provision of such facilities and capitalists can be found to finance the arrangement, the Railway Board would be prepared so far as State-managed Railways are concerned and to use their good offices with company-managed Railways to give such assistance as is practicable to make the arrangement a success. Their assistance in particular would be in respect of the following matters:—

(a) the leasing of railway land, where available, for the construction of warehouses, at a reasonable rental, on the usual terms. The more important of these terms, briefly stated, are as follows:—

(i) that three months' notice should be given by either party for the termination of the lease,

(ii) on the termination of the lease any buildings, works, etc., upon the land leased may be purchased by the railway administration, and if not so purchased must be pulled down and the material removed from the land by the lessee at his own expense within two months,

(iii) the lessee should indemnify the railway administration against all claims, etc., for any loss which the administration may sustain as a result of the working of the warehouses.

(b) where railway land is not available and a warehouse is provided on privately-owned land at some distance from the railway goods shed, the provision of a railway siding, if practicable, to serve the warehouse, on the usual "assisted siding" terms. Particulars of these terms can be furnished to the Committee if desired.

(c) co-operating with the warehouse company in the delivery and despatch of consignments, so as to facilitate the transfer of goods from the railway goods shed to the warehouse, and *vice versa.*

Other directions in which railway administrations could assist the warehouse company in its business would doubtless be manifest when the scheme begins to function.

COPY OF LETTER No. 3845-T., DATED THE 6TH OF APRIL 1931, FROM THE DEPUTY DIRECTOR, RAILWAY BOARD, TO THE SECRETARY, INDIAN CENTRAL BANKING ENQUIRY COMMITTEE.

Warehouses at railway stations.

In continuation of the Railway Board's letter No. 3845-T., dated the 2nd April 1931, and with reference to item (*a*) of the first paragraph thereof, I am directed to state that for the purpose of estimating the cost of providing and working railway warehouses and the storage charges to be levied for goods stored therein, the following three stations have been selected:—

(i) Dinajpur (on the Eastern Bengal Railway)—a jute booking station.

(ii) Okara (on the North Western Railway)—a grain booking station.

(iii) Akola (on the Great Indian Peninsula Railway)—a cotton booking station.

2. I am to enclose a statement for each of these three stations from which it will be seen:—

(*a*) that the cost of providing warehouses is estimated to be:—

	Rs.
At Dinajpur	8[illegible]000
At Okara	52,[illegible]
At Akola	72,000

In arriving at the cost, it has been assumed that the maximum storage accommodation required at any one time will not exceed one-tenth the annual volume of the traffic in the principal commodity dealt with at the station. On this assumption, the estimate provides for warehousing facilities as follows:—

At Dinajpur, for 44,000 maunds (as the total quantity of jute boked from this station during the year ending 31st March 1929 was about 444,000 maunds).

At Okara, for 56,700 maunds, (as the total quantity of all sorts of grain, pulses and seeds booked from this station during the year ending 31st March 1929 was about 567,000 maunds).

At Akola, for 58,300 maunds (as the total quantity of cotton full-pressed booked from this station during the year ending 31st December 1930 was about 583,000 maunds).

(*b*) that the annual cost of working (including interest, etc., on capital outlay) is estimated to be as follows:—

	Rs.
At Dinajpur	14,690
At Okara	12,200
At Akola	13,600

In regard to the provision made in the estimate for staff, it is not practicable without actual experience of working to say whether the number provided is adequate or otherwise.

Insurance charges and charges for grading have not been taken into account, as information is not readily available on these points.

(*c*) that the storage charges per maund per day, without allowing for any profit, are estimated to be as follows:—

	Pie.
At Dinajpur	0·353
At Okara	0·225
At Akola	0·246

For the purpose of arriving at these storage charges it has been assumed that the average amount in the warehouse each day will be half the maximum amount for which accommodation will be required, as the traffic in the principal commodity dealt with is seasonal and for about six months in the year the storage accommodation is not likely to be used to any appreciable extent.

Pro forma estimate of the cost of providing and working a railway warehouse at *Dinajpur* (Eastern Bengal Railway) and of the storage charges to be levied.

		Maunds.
1.	Total amount of jute booked annually	440,000
2.	Storage accommodation required at one-tenth the annual quantity of jute booked for.	44,000
3	Stacking area required for stacks 12 feet high, for jute bundles at 3·9 cubic feet per maund :—	

$$\frac{44{,}000 \times 3 \cdot 9}{12} = 14{,}300 \text{ sq. ft.}$$

Add 10% for office and passages, 1,430 sq. feet.

Total area for stacking 15,730 sq. feet.

		Rs.
4.	Cost of warehouse at Rs. 4-8-0 per square foot . . .	70,785
5.	Land, a quarter acre, at Rs. 700 per acre	175
6.	Platform, 10 feet wide and 200 feet long, at Rs. 14-8-0 per lineal foot.	2,900
7.	Siding, 176 yards (1/10th mile) at Rs. 40,000 per mile .	4,000
8.	Points and crossings, one set	1,200
9.	Total cost of warehouse and facilities (items 4 to 8) . .	79,060
		say, 80,000
10.	Interest, maintenance and depreciation charges, annually, at 9½ of cost (item 9).	7,600
11.	Staff per annum	3,280

		Rs.
(*i*)	Supervisor at Rs. 100 per mensem . .	1,200
(*ii*)	2 clerks, each Rs. 60 per mensem for 6 months	720
(*iii*)	1 Clerk at Rs. 60 per mensem for 12 months	720
(*iv*)	3 Chowkidars, each Rs. 15 per mensem for 12 months.	540
(*v*)	20% of salaries under items (i) to (iv) to cover leave pay, provident fund, gratuity, etc.	640

		Rs.
12.	Handling charges, assuming half the total quantity booked annually is stored.	1,540

		Rs.
(*i*)	Stacking at Rs. 4 per 1,000 maunds .	880
(*ii*)	Delivery at Rs. 3 per 1,000 maunds .	660

		Rs.
13.	Stores, stationery and forms, say	100
14.	Supervision, at 12½% of the costs under items 10 to 13 .	1,630
15.	Total annual cost of providing and working the warehouse (items 10 to 14).	14,690
		Maund-days.
16.	Maund-days to be charged for, assuming that on the average one-twentieth of the total quantity booked is in the warehouse every day throughout the year 22,000 × 365.	8,030,000
		Pie.
17.	Storage charge per maund per day (item 15 ÷ item 16) .	0·353

Pro forma estimate of the cost of providing and working a railway warehouse at *Okara* (North Western Railway) and of the storage charges to be levied.

		Maunds.
1.	Total amount of grain, pulses and seeds booked annually .	567,00
2.	Storage accommodation required, at one-tenth of annual quantity of grain, etc., booked for.	56,70

3. Stacking area required for stacks 12 feet high, at 6 cubic feet per bag ($2\frac{1}{2}$ maunds in a bag) :—

$$\frac{567,000 \times 6}{2 \cdot 5} = 136,080 \text{ cubic feet.}$$

$$\frac{136,080}{12} = 11,340 \text{ square feet.}$$

Add 10% for office and passages, 1,134 square feet.

Total area for stacking : 12,474sq. ft.

		Rs.
4.	Cost of warehouse, at Rs. 3-8-0 per sq. ft.	43,659
5.	Land, a quarter acre, at Rs. 600 per acre	150
6.	Platform, 10 feet wide and 200 feet long, at Rs. 14-8-0 per lineal foot.	2,900
7.	Siding, 176 yards (1/10th mile) at Rs. 40,000 per mile . .	4,000
8.	Points and crossings, for one set	1,200
9.	Total cost of warehouse and facilities (items 4 to 8) . .	51,909
		say, 52,000
10.	Interest, maintenance and depreciation charges annually at $9\frac{1}{2}$ of cost (item 9).	4,940
11.	Staff per annum	3,820

		Rs.
(*i*)	Supervisor at Rs. 100 p.m. . . .	1,200
(*ii*)	2 Clerks, each at Rs. 60 p.m. for 6 months .	720
(*iii*)	1 Clerk at Rs. 60 p.m. for 12 months .	720
(*iv*)	3 Chowkidars, each at Rs. 15 p.m. for 12 months. .	540
(*v*)	20% of salaries under items (*i*) to (*iv*) to cover leave pay, provident fund, gratuity, etc.	640

		Rs.
12.	Handling charges, assuming half the total quantity booked annually is stored.	1,990

		Rs.
(*i*)	Stacking at Rs. 4 per 1,000 maunds . .	1,137
(*ii*)	Delivery at Rs. 3 per 1,000 maunds .	853

		Rs.
13.	Stores, stationery and forms, say	100
14.	Supervision at 127% of the cost under items 10 to 13 . .	1,360
15.	Total annual cost of providing and working the warehouse (items 10 to 14).	12,200

		Maund-days.
16.	Maund-days to be charged for, assuming that on the average one-twentieth of the total quantity booked is in the warehouse every day throughout the year.	28,350 × 365 =10,347,750

		Pie.
17.	Storage charge per maund per day (item 15 ÷ item 16)	0·225

Pro forma estimate of the cost of providing and workigng a railway warehouse of *Akola* (Great Indian Peninsula Railway) and of the storage charges to be levied.

	Maunds.
1. Total amount of cotton booked annually . . .	580,000
2. Storage accommodation required, at one-tenth the annual quantity of cotton booked for.	58,000

3. Stacking area required for stacks 12 feet high for cotton bales at 24 lbs. per cubic foot :—

$$\frac{58,000 \times 82}{24} \text{ (lbs. per maund.)}$$

$$=198,167 \text{ cubic feet.}$$

$$= \frac{198,167}{12} = 16,514 \text{ square feet.}$$

	Sq. ft.
Add 10 % for office and passages . . .	1,650
Total area for stacking	18,164 sq. ft.

	Rs.
4. Cost of warehouse at Rs. 3-8-0 per square foot . . .	63,578
5. Land, a quarter acre, at Rs. 500 per acre	125
6. Platform, 10 feet wide and 200 feet long at Rs. 14-8-0 per lineal foot.	2,900
7. Siding, 176 yards (1/10th mile) at Rs. 40,000 per mile . .	4,000
8. Points and crossings, for one set	1,200
9. Total cost of warehouse and facilities (items 4 to 8) . .	71,803
	say, 72,000
10. Interest, maintenance and depreciation charges annually at 9½% of cost (item 9).	6,140
11. Staff per annum	3,820

	Rs.
(*i*) Supervisor at Rs. 100 per mensem . .	1,200
(*ii*) 2 clerks, each at Rs. 60 p. m. for 6 months	720
(*iii*) 1 clerk at Rs. 60 p. m. for 12 months .	720
(*iv*) 3 Chowkidars, each at Rs. 15 p.m. for 12 months.	540
(*v*) 20% of salaries under items (*i*) to (*iv*) to cover leave pay, provident fund, gratuity, etc.	640

	Rs.
12. Handling charges, assuming half the total quantity booked annually is stored.	2,030

	Rs.
(*i*) Stacking at Rs. 4 per 1,000 maunds . .	1,160
(*ii*) Delivery at Rs. 3 per 1,000 maunds . .	870

		Rs.
13.	Stores, stationery and forms, say	100
14.	Supervision at 12% of the costs under items 10 to 13 . .	1,510
15.	Total annual cost of providing and working the warehouse (items 10 to 14).	13,[illegible]00
		Maund-days.
16.	Maund-days to be charged for, assuming that on the average one-twentieth of the total quantity booked is in the warehouse every day throughout the year :—	
	29,000 × 365	10,585,000
		Pie.
17.	Storage charge per maund per day (item 15 ÷ item 16) . .	0·246

No. 14.

Summary.

Percentages of India's Foreign Trade in terms of Bills passed through the Exchange Banks during the years 1925 and 1929 respectively.

—	Exports.				—	Imports.			
	Indian.		Non-Indian.			Indian.		Non-Indian.	
	1925.	1929.	1925.	1929.		1925.	1929.	1925.	1929.
					CALCUTTA.				
7 British . . .	19%	35%	81%	65%	7 British . . .	70%	69%	30%	31%
4 Non-British . .	42%	56%	58%	44%	4 Non-British . .	54%	78%	46%	22%
					BOMBAY.				
7 British . . .	25%	29%	75%	71%	7 British . . .	70%	76%	30%	24%
5 Non-British . .	28%	40%	72%	60%	5 Non-British . .	73%	77%	27%	23%
					RANGOON.				
5 British . . .	43%	42%	57%	58%	5 British . . .	56%	58%	44%	42%
2 Non-British . .	28%	28%	72%	72%	2 Non-British . .	51%	50%	49%	50%
					MADRAS.				
5 British . . .	44%	43%	56%	57%	5 British . . .	76%	77%	24%	23%

No. 14—*contd.*

Summary—*contd.*

	Exports.				—	Imports.			
	Indian.		Non-Indian.			Indian.		Non-Indian.	
	1925.	1929.	1925.	1929.		1925.	1929.	1925.	1929.
				KARACHI.					
5 British . . .	13%	17%	87%	83%	5 British . . .	67%	78%	33%	22%
1 Non-British . .	..	..	100%	100%	1 Non-British . .	31%	13%	69%	87%
				DELHI.					
All British . .	100%	100%	..	..	All British . .	95%	95%	5%	5%
				CAWNPORE.					
All British . . .	95%	95%	5%	5%	All British . .	95%	95%	5%	5%
				AMRITSAR.					
All British . .	84%	80%	16%	20%	All British . .	100%	100%	..	..

Certified that the foregoing percentages have been compiled from figures confidentially submitted by the Exchange Banks concerned.

(Sd.) Chairman,
Exchange Banks Association, Calcutta.

BOMBAY.

Percentages of **Exports** *and* **Imports** *Bills relating to Indian and Non-Indian Firms*

	Exports.				Imports.			
	Indian.		Non-Indian.		Indian.		Non-Indian.	
	1925.	1929.	1925.	1929.	1925.	1929.	1925.	1929.
7 British Banks—								
A	53%	72%	47%	28%	85·74%	89·32%	14·26%	10·68%
B	18%	25%	82%	75%	95%	96%	5%	4%
C	50%	45%	50%	55%	65%	69%	35%	31%
D	22%	21%	78%	79%	61%	92%	39%	8%
E	7/8%	1¼%	99⅛%	98¾%	35½%	51⅜%	64½%	48⅝%
F	15%	7%	85%	93%	52%	54%	48%	46%
G	17%	30%	83%	70%	92%	79%	8%	21%
5 Non-British Banks—								
A	1%	25%	99%	75%	74%	93%	26%	7%
B	65%	91%	35%	9%	98%	75%	2%	25%
C	50%	19%	50%	51%	88%	88%	12%	12%
D	20%	21%	80%	79%	81%	82%	19%	18%
E	5%	12%	95%	88%	25%	49%	75%	51%

Certified that the foregoing percentages have been compiled from figures confidentially submitted by the Exchange Banks concerned.

(Sd.) Chairman,
Association, Calcutta.

CALCUTTA.

Percentages of **Exports** *and* **Imports** *Bills relating to Indian and Non-Indian Firms.*

	Exports.				Imports.			
	Indian.		Non-Indian.		Indian.		Non-Indian.	
	1925.	1929.	1925.	1929.	1925.	1929.	1925.	1929.
7 British Banks—								
A . . .	8%	12%	92%	88%	80%	78%	20%	22%
B . . .	24%	49%	76%	51%	70%	70%	30%	30%
C . . .	20%	50%	80%	50%	75%	70%	25%	30%
D . . .	38%	51%	62%	49%	77%	79%	23%	21%
E . . .	2%	8%	98%	92%	23%	30%	77%	70%
F . . .	20%	43%	80%	57%	88%	86%	12%	14%
G . . .	20%	30%	80%	70%	80%	70%	20%	30%
4 Non-British Banks—								
A . . .	35%	50%	65%	50%	35%	50%	65%	50%
B . . .	20%	70%	80%	30%	25%	75%	75%	25%
C . . .	80%	70%	14%	30%	80%	100%	20%	*Nil.*
D . . .	28%	36%	72%	64%	77%	89%	23%	11%

Certified that the foregoing percentages have been compiled from figures confidentially submitted by the Exchange Banks concerned.

(Sd.) Chairman

Exchange Banks Association, Calcutta.

RANGOON

Percentages of **Exports** *and* **Imports** *Bills relating to Indian and Non-Indian Firms.*

—	Exports.				Imports.			
	Indian.		Non-Indian.		Indian.		Non-Indian.	
	1925.	1929.	1925.	1929.	1925.	1929.	1925.	1929.
5 British Banks—								
A	95%	76%	5%	24%	100%	82%	..	18%
B	17%	25%	83%	75%	36%	48%	64%	52%
C	27%	9%	73%	91%	42%	63%	58%	37%
D	55%	44%	45%	56%	70%	70%	30%	30%
E	23%	54%	77%	46%	33%	28%	67%	72%
2 Non-British Banks—								
A	33%	37%	67%	63%	13%	10%	87%	90%
B	22%	18%	78%	82%	90%	89%	10%	11%

Certified that the foregoing percentages have been compiled from figures confidentially submitted by the Exchange Banks concerned.

(Sd.) Chairman,

Exchange Banks Association, Calcutta.

MADRAS.

Percentages of **Exports** *and* **Imports** *Bills relating to Indian and Non-Indian Firms.*

—	Exports.				Imports.			
	Indian.		Non-Indian.		Indian.		Non-Indian.	
	1925.	1929.	1925.	1929.	1925.	1929.	1925.	1929.
5 British Banks—								
A . . .	27%	64%	73%	36%	89%	89%	11%	11%
B . . .	51%	21%	49%	79%	52%	70%	48%	30%
C . . .	39%	27%	61%	73%	95%	97%	5%	3%
D . . .	61%	49%	39%	51%	95%	69%	5%	31%
E . . .	44%	56%	56%	44%	50%	60%	50%	40%

Certified that the foregoing percentages have been compiled from figures confidentially submitted Exchange Banks concerned.

(Sd.) Chairman,

Exchange Banks Association, Calcutta.

KARACHI.

Percentages of **Exports** *and* **Imports** *Bills relating to Indian and Non-Indian Firms.*

	Exports.				Imports.			
	Indian.		Non-Indian.		Indian.		Non-Indian.	
	1925.	1929.	1925.	1929.	1925.	1929.	1925.	1929.
British Banks—								
A . . .	8½%	15%	91½%	85%	35%	51%	65%	49%
B . . .	9%	6%	91%	94%	93%	98%	7%	2%
C . . .	15%	28%	85%	72%	83%	94%	17%	6%
D . . .	20%	14½%	79½%	85½%	46½%	67½%	53½%	32½%
E . . .	10%	23%	90%	77%	78%	79%	22%	21%
1 Non-British Bank—								
A . . .	..	..	100%	100%	31%	13%	69%	87%

Certified that the foregoing percentages have been compiled from figures confidentially submitted by the Exchange Banks concerned.

(Sd.) Chairman,
Exchange Banks Association, Calcutta.

UP-COUNTRY FIGURES.

Percentages of **Exports** *and* **Imports** *Bills relating to Indian and Non-Indian Firms.*

—	Exports.				Imports.			
	Indian.		Non-Indian.		Indian.		Non-Indian.	
	1925.	1929.	1925.	1929.	1925.	1929.	1925.	1929.
Delhi	100%	100%	..	..	95%	95%	5%	5%
Amritsar	84%	80%	16%	20%	100%	100%	..	..
Cawnpore	95%	95%	5%	5%	95%	95%	5%	5%

Certified that the foregoing percentages have been compiled from figures confidentially submitted by the Banks concerned.

(Sd.) Chairman

Exchange Banks Association, Calcutta.

APPENDIX IV.

9, QUEENSWAY, NEW DELH

As regards the solution of your own Committee's problems, I do see at the moment that we can render any useful advice or informat beyond that already given. If, as a result of the publication of your rep: it appears that my Chamber is able to take any practical part in achievement of your objects, I am sure that the proposals will receive most sympathetic consideration of my Committee.

Mr. Cook, who was the representative of the Exchange Banks Assoc tion on the Chamber Committee last year, gave oral evidence on behalf both my Chamber and the Exchange Banks Association, and his succes on the present Chamber Committee informs me that the latter body fu endorse the sentiments expressed in this letter. I also understand fr him that, as promised by Mr. Cook in Poona, copies of the Excha Banks' Rules of business have been made more freely available to public, and that with the approval of the London Association every su port is being given to Indian Insurance Companies.

If you can suggest any further way in which I can assist you I sh be glad to do what I can.

I might also mention that my Chamber willingly responded to the recent invitation of the Bengal National Chamber of Commerce to discuss the jute crisis, and it gave us great pleasure to send invitations to representative Indian Chambers to the annual meetings of the Associated Chambers in December, and of the Bengal Chamber in February. We welcomed the presence of the President of the Indian Chamber at both meetings.

As regards the solution of your own Committee's problems, I do not see at the moment that we can render any useful advice or information beyond that already given. If, as a result of the publication of your report it appears that my Chamber is able to take any practical part in the achievement of your objects, I am sure that the proposals will receive the most sympathetic consideration of my Committee.

Mr. Cook, who was the representative of the Exchange Banks Association on the Chamber Committee last year, gave oral evidence on behalf of both my Chamber and the Exchange Banks Association, and his successor on the present Chamber Committee informs me that the latter body fully endorse the sentiments expressed in this letter. I also understand from him that, as promised by Mr. Cook in Poona, copies of the Exchange Banks' Rules of business have been made more freely available to the public, and that with the approval of the London Association every support is being given to Indian Insurance Companies.

If you can suggest any further way in which I can assist you I shall be glad to do what I can.

Yours sincerely,
(Sd.) P. H. BROWNE

Indian Central Banking Enquiry Committee,
New Delhi.

GIPD—133 CP—17-11-31—650.